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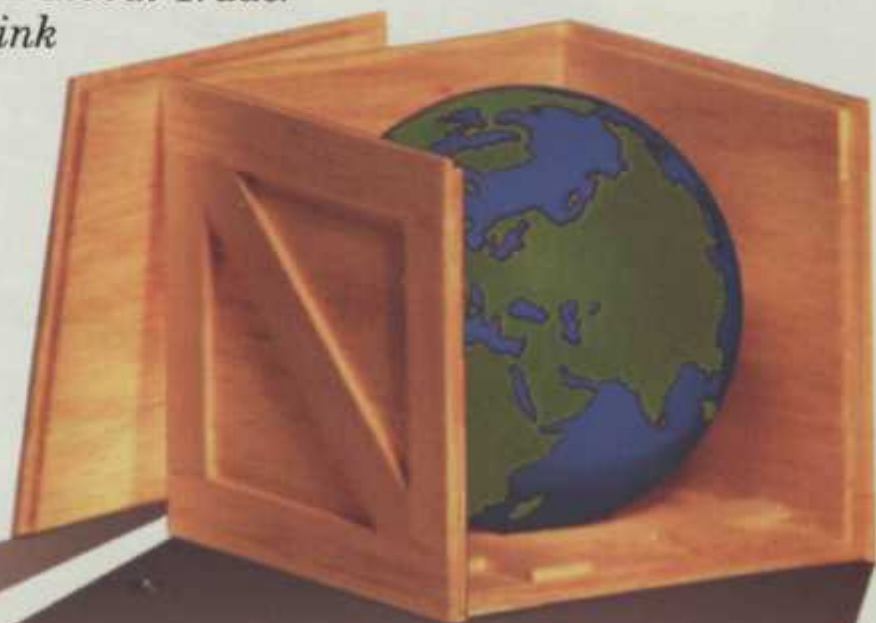
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Nation's Business



PHOTO: ©DON HAMILTON

Global view: Exporting pays off for Arbor Crest Winery, says co-owner David Mielke. Cover Story, Page 18.



PHOTO: ©PAUL SOUDERS

Risky business: Worker tests can land you in court, oil driller James C. Taylor discovered. Managing, Page 29.



PHOTO: ©JIM MENDENHALL

Rescue team: Safi Qureshey and Tom Yuen reinvigorated their computer firm. Lessons Of Leadership, Page 38.

COVER STORY

18 Reach New Markets

To bolster their sales and profits, many U.S. small-business owners are turning to overseas markets. Here are some of their experiences, along with suggested resources to help you begin or expand your exporting activities.

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24—*Trade Technology*

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A "living benefit" for the terminally ill; a bill to encourage pension portability; an effort to repeal mandated health insurance.

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Too much—or too little—probing into employees' and job applicants' private lives can be risky for an employer. Here are ways to avoid costly lawsuits.

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Partnerships—particularly those owned by women—can get "snarled up" by the notion that everyone is equal, says an organization expert; a company, if it is to succeed, must have one leader.

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Working at home on a company payroll—an arrangement known as telecommuting—is growing easier thanks to the advent of voice mail, fax machines, and powerful, low-cost personal computers.

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One major slip taught the ninth-biggest personal-computer manufacturer that high technology is no substitute for constant attention to business basics.

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WHERE I STAND

56 Regulation

Your responses to these questions on the regulatory climate for business will be used in a forthcoming major article on this critical issue.

Published by the
U.S. Chamber of Commerce
Washington, D.C.

Editor's Note

Set Your Sights On Foreign Markets

Small businesses should not lose out on foreign-trade opportunities out of fear that they don't have the necessary resources or know-how. That's the basic message of this month's cover story by Senior Editor Al Holzinger, which starts on Page 18. It contains a wealth of information on what smaller firms need to know about seeking markets abroad. The biggest challenge, you'll find, is overcoming any assumption that international trade is limited to big companies and that you would be quickly overwhelmed if you tried it. As one expert told us, "You'll find an awful lot of people to help you." We're sure this comprehensive package will help many readers decide that international trade isn't as daunting as they might have thought.



Illustration: Thomas E. Snoreck / John Caruso, Sparkman Byrd and Associates



PHOTO: T. MICHAEL KEZA

No more truffles: Jeff Hachmann creates barks, moguls, and other chocolate delights. Making It, Page 14.

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The many hats worn by small-business managers include that of personnel director, and the article on Page 29 deals with a very sensitive matter in that area: investigating employees and job applicants. It points out that background checks not only can produce essential information but also can produce lawsuits for invasion of privacy. You'll find guidance on how to achieve the former and avoid the latter in a report particularly relevant to today's workplace.

Update: An article in our November 1989 issue described how the Midnight Basketball League in Glenarden, Md., was keeping young people occupied during the peak crime hours. The league has since been cited by President Bush as one of his "Thousand Points of Light," his term for the voluntary efforts that help build a better society. More than 40 local companies, most of them small firms, provide critical financial support. They are points of light, too.

Robert T. Gray

Robert T. Gray
Editor

The accident itself was simple: a panic stop on wet pavement, a sideways skid, a minor impact. No one hurt.

Followed by the high cost of a vehicle out for repairs. Followed by productivity loss.

With that common scenario in mind, you might also want to consider the following:

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Letters

Home-Grown Energy There For The Harvesting

Your October editorial ["U.S. Energy Problems Won't End When The Middle East Crisis Does"] outlined important ways to increase energy production. But how could you fail to mention the value of fuel from crops?

One of our nation's greatest resources is land, and our farmers even now produce more than we need for food—with the capability to grow much more.

Studies have already shown the feasibility of using many grass crops for fuel. Even if we could use a substitute only for smaller cars and trucks, the savings in oil would be considerable.

In addition to our pattern business, my husband and I operate a productive farm in Illinois. With technology and determination behind the farmers of America, we would be delighted to help solve the energy problems of our country.

Marie C. Petersen
Central Pattern
Hazelwood, Mo.

Cost Shifting Alone Won't Solve Health-Cost Problems

One might easily get the impression from "10 Ways To Cut Your Health-Care Costs Now" [October] that finally we have answers to the chronic and evasive problem of escalating health-insurance premiums. But a number of the solutions therein represent nothing more than cost shifting, which does not really get to the root of the problem, our nation's runaway spending on health care.

Cost shifting at best offers short-term relief for business.

Incurred risks drive health-care costs, which then drive premiums. Consequently, employers with above-average risks or who have a greater proportion of older employees in their work forces will most likely experience higher health-insurance costs.

Those shopping around for alternative health-plan carriers might be wise to consider ones that community-rate

(rather than experience-rate) their client base.

At the same time, let me caution that frequent switching of carriers has a cost all of its own, namely that of narrowing down the number of carriers willing to even quote on a group that changes carriers from year to year.

Walter D. Rogers
Chief Executive
Family Health Plan
Newton, Kan.

Don't Reduce Mental-Health Care

The idea of eliminating or curtailing coverage for mental illness and substance addictions is at best the ostrich approach. Dollars lost in absenteeism and reduced productivity due to mental/emotional problems and substance addictions are the most expensive health-care costs that a business can experience.

Even for small businesses, early detection and early treatment of these problems constitute the sound business approach.

I recommend that all businesses consider the benefits of making an employee assistance program (EAP) part of the benefits package.

Properly run, an EAP can be coupled with good insurance coverage to yield significant cost savings for large or small businesses.

However, businesses should be very skeptical of private for-profit hospitals that offer to set up and manage an EAP for free or at significantly reduced rates. At its best, this is a loss leader, and you can expect the cost to be made up in expensive hospital and professional fees when treatment is necessary.

Brady Morrison
Area Director
Crossroads
(Mental Health and Substance Abuse
Authority)
Mount Airy, N.C.

Risk Pools' Hidden Risk

Although I am impressed by the cost-cutting suggestions, the one suggesting transferring high-risk employees to the state's high-risk pool needs to be retracted. These pools are for people

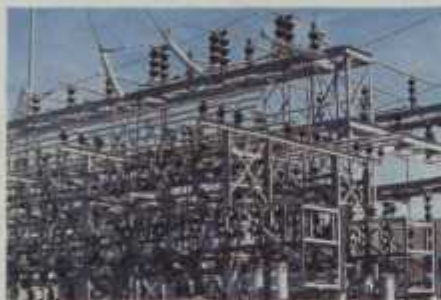


PHOTO: DAVID VALDES

Meeting energy needs requires
technology and determination.

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who do not have coverage available through an employer-sponsored plan and who are a high enough risk that they cannot secure it through standard individual channels. Generally, the plans have substantial contract limitations and cost-sharing by the participants.

If you force an employee into the pool, you may face a discrimination suit based on age or disability. Employers with 20 or more employees have to be particularly careful because COBRA protects employees from the loss of coverage should an event occur making the employee and/or the employee's dependent ineligible for coverage.

If one employee or dependent creates a situation where the cost is being borne by all other members of the group so that the group may not be able to offer coverage any longer, then the group should stop its plan, and every person should purchase his or her own individual insurance.

*William C. Robertson
Cleveland Financial
Group
Cleveland*

Managed Care

I agree that managed care will be the health-care issue of the '90s.

We are a small company of less than 50 people. We incorporated some of the cost-containment features in our policy three or four years ago. Our city is just small enough that health-maintenance organizations and preferred-provider organizations are not readily available.

We have, however, added features such as mandatory second opinion prior to surgery, as well as preadmission certification.

Of course, we have had premium increases, but I hate to think what they would have been if we had not made policy changes. The changes do not dilute the quality of care. They basically trigger a thoughtful review of each case.

*Cliff Schroeder
Executive Vice President
Tran-Tec Corp.
Columbus, Neb.*

**There Are Merits
To Canada's Health Plan**

Your argument that "Canada's Health Plan Is Not For Importing" [Benefits Update, September] overlooks the fact that any increase in taxes to pay for a national health plan would be offset by the abolition of costs for existing health-insurance premiums. We can pay

for our health care through direct premiums, through higher costs for goods and services as our employers pay the premiums, or through taxation, but we must—and do—pay.

*Raymond Curry, M.D.
Chicago*

**A Widening
Education Market**

We were delighted to read your August cover story, "Tapping The Education Market." It was an excellent primer to what is actually a combination of sub-markets (office, preschool/child care, public/private elementary and high schools, churches, parents, etc.).

Your readers may want to know more about a trade organization that represents and promotes an open market for educational products and services. They should contact the National

School Supply & Equipment Association, 2020 N. 14th St., Suite 400, Arlington, Va. 22201; or call (703) 524-8819 or (800) 395-5550.

Thanks for providing a great service to the business community.

*Tim Holt
Executive Vice President
National School Supply
& Equipment
Association
Arlington, Va.*



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**The "Good Old Days"
Really Were Better**

After reading Joe Cossman's article in the August Entrepreneur's Notebook ["Closing That First Deal"], I wonder if I should be inspired or merely long for the "good old days."

Mr. Cossman related an incident that happened in 1946. [Mr. Cossman succeeded in his first exporting venture—shipping laundry soap overseas—largely through his determination to seal agreements on the spot.]

In my experience, if he attempted the same thing today, with each and every step he would incur a delay of two weeks to two months while "our lawyers looked it over."

Nevertheless, I enjoyed the article.
*Robert E. Boucher
Houston*

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The Next Challenge

By J.S. Wyner



Sometimes when you try to solve a problem, you end up with a more complex one, each in turn presenting more exciting challenges—and sometimes frustrations. That's what I have faced during 40 years as an engineer, 35 of them as an entrepreneur.

I was drawn to aviation after high school, so I enrolled in an aeronautics program, where I earned mechanic's and ground instructor's licenses. Afterward, in the early '40s, I enlisted in the air force and was selected to train as a pilot.

During my flight training, I became fascinated with the way that the clear-plastic gun turrets offered both protection and visibility.

After service, I studied engineering at Syracuse University, where I won first prize in a design competition with a safety cutoff valve for an aircraft hydraulic system. But I was living under the GI Bill, and I couldn't afford the cost of patenting the device.

While earning my degree, I was employed part time at the Syracuse Materials Testing Laboratories, where I worked with silicones as protective shields. It struck me that liquefying the bubble turrets' plastic material would make it conform to the objective of long-lasting protection.

I later worked at Republic Aviation, which had wind tunnels for testing aircraft models, but it was some time before I saw how my experience there would fit into the total picture of what was to be my business career.

I continued to experiment with silicones and plastics, eventually coming up with a glasslike cross-linked polymeric resin that waterproofs and strengthens masonry and is impervious to acid rain and chemical attack. I had this patented, and it became the basis of my business, Perma-Jection Corp. It wasn't long before I was out on



PHOTO: © ELAN DORON

Protecting Picasso: J. S. Wyner on the NYU campus.

my own (with an MBA from New York University).

Since the early 1960s, our company has worked on restoring and preserving landmarks such as the West Wall of the U.S. Capitol, the Statue of Liberty's Museum of Immigration, and the New York Stock Exchange. Other New York City structures protected with our material include the General Electric headquarters, the New York Javits Convention Center, and, on the New York University campus, the 70-year-old Shinkin Hall, the 3 1/2-story Picasso sculpture, and the two high-rise Silver Towers designed by I.M. Pei.

In the late 1970s, I was taking photos of one of these projects at NYU during a rainstorm driven by fierce wind, and I noticed that the untreated reinforced concrete looked wet but the part treated by my company looked dry. Then I remembered the wind tunnel: If wind could drive acid rain so deeply into a surface that it caused damage, then I could simulate a force like that produced in a wind tunnel to inject my clear material to insulate against erosion, decay, and aging.

I designed and built a high-speed air-injection machine that drove my coating deeply, in layers. Moreover, the depth of penetration kept the pores in the stone open, so that the structures could breathe. They would not crack the coating or hold in damaging moisture. I had the process tested in a lab, and then I field-tested the equipment. I patented the machines and the application process. I now have a patent pending for a process that combines steel and stone preservation technology.

The application of my P-J resin to the eagles flanking Madison Square Garden has lasted more than 14 years—with no cracks. Other deep-penetration applications of mine—before the process was patented—have lasted more than 30 years without needing repairs or recoating.

The challenge now facing my business is to bring the process to a wider marketplace, which could include roads and bridges. That marketplace will decide whether this new long-range technology is as valuable as I think it is.

Whatever form it takes, this next challenge will certainly be as complex as discovering, perfecting, and testing the new process in the first place. ■

J.S. Wyner is the founder and president of Perma-Jection Corp., 134-20 Jamaica Ave., Richmond Hill, N.Y. 11418.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook.

Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

Managing Your Small Business

Cost-cutting travel strategies, simpler accounting, and the perfect product debut.

By Bradford A. McKee

FINANCES

Take A Breathe From Bills

Is your firm drowning in debt? Try reorganizing without a Chapter 11 bankruptcy filing, one expert advises.

Seek a "moratorium" of 30 to 90 days with unsecured creditors, says Michael Busch, chief executive officer of the Wharton Resource Group, a Chicago consulting firm. Be evenhanded with all creditors, he says. Explain that you intend to pay fully once cash is flowing again but that you need to negotiate now. "Whatever [creditors] get is better than nothing," he says. And stick to whatever you negotiate.

During the moratorium, pay cash for goods you need, and get rid of unneeded inventory. Cut operating costs. Try to raise gross margins as long as sales won't hurt. Put more effort into marketing.

After 90 days, you should know whether the plan has worked. If nothing else, Busch says, the manager in arrears can stop ducking phone calls and can "take a breath." ■

SALES

Ways To Increase Orders

Your firm can improve sales by expanding its present sales base, says Warren Blanding, chairman and chief executive officer of the Customer Service Institute, a consulting group in Silver Spring, Md. He offers these tips to help boost sales:

Give price breaks for larger orders or higher-volume service.

Offer related products such as accessories or spare parts for equipment.

Suggest new products for customers to try. The word "new" has a "magical effect" on customers, Blanding says.

Sell at clearance prices those surplus goods that customers might not buy at regular prices.

Track buying habits of customers and watch for any decline in orders. Ask why they're buying less.

Tell customers success stories of other customers with products or services.

For more customer-service help, call the Customer Service Institute at (301) 585-0730. ■

ILLUSTRATION: MARY MULLINE

MARKETING

Kiosks: Low Cost, High Traffic

A kiosk can be the ideal location for a start-up retailer. Leasing experts and experienced retailers say kiosks offer lower rent and more traffic than retail shops set back along the wall.

The Plus Cos., based in Waco, Texas, leases retail-mall kiosks for many of its Monograms Plus franchises, which offer sewn-on monograms for clothing.



A kiosk for a Monograms Plus franchise in Fayetteville, N.C.

Start-up costs for Monograms Plus kiosks, not including equipment, are "typically less than half of an 'in-line' store," says President Larry Meyer.

Kiosks are great for small, impulse buys such as jewelry, T-shirts, or candy, says Daniel Arian, leasing representative for the Cleveland-based Forest City Enterprises Inc., which owns several malls across the country. ■

EXPENSES

Travel Policies Cut Costs

A travel policy that lowers airline fares can save money for your business. Ron Rishagen, president of Pacifica Plaza Travel in Los Angeles, says small firms can save 13 to 17 percent in travel costs by bargaining for reduced rates as part of a travel policy.

Monica Lauerman, travel manager at Kinetics Technology International Corp., a construction firm in Monrovia, Calif., negotiated cuts of 15 to 20 percent in certain advance-purchase fares for flights that the firm's employees

ACCOUNTING

Simpler Method For Small Firms

A study by the American Institute of Certified Public Accountants shows that more than one-third of the CPAs see prospects for use of a simpler set of accounting standards for small firms.

The respondents said that instead of using the more complex GAAP standards (generally accepted accounting principles), they use OCBOA—"other comprehensive bases of accounting."

OCBOA statements show a firm's cash flow, says Larry Griffith, a CPA at Mosebach Griffith & Co., in Des Moines, Iowa. He says OCBOA forms let small businesses "prepare a system that suits their needs." He adds, however, that banks see OCBOA as less thorough than GAAP. ■

INNOVATION

The Winning Product Launch

Some new products can be *too* innovative, says Paul O'Connor, director of The Adept Group, a product-development firm in Huntington, Conn. "Products that do not strike a chord of familiarity with the customer have a lower probability of success," he says. "Their innovativeness puts them at risk of failure."

Be sure the consumer perceives your innovation as better than the status quo, O'Connor says. The basic test is if customers perceive the product to be superior to what they are using, he says. "If we cannot validate that, we are at risk in going to market." ■

use the most. Lauerman and her travel agent persuaded airlines to give the firm lower fares by showing its buying power—where, when, and how often the firm's employees travel.

Lauerman says that to save further, employees take connecting flights if it means a lower fare. She asks them not to change travel plans on the road (a change can hurt a fare discount). She also asks employees to get Saturday-stayover discounts whenever they can. "We have a very strict travel policy," Lauerman says, "and we very much enforce it." ■



SMALL BUSINESS IS THE ENGINE THAT DRIVES THE AMERICAN ECONOMY.

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Statistics show small businesses generate much of the innovation and new jobs this country enjoys. They are the Blue Chip companies of today. But now they are facing unprecedented pressures.

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There Are Many Ways to Participate

1. Join the initiative by applying for the Award. Describe what challenges you have overcome and how. Companies with five to three hundred employees and at least three years of continuous operation are eligible.
2. Nominate your employer, clients, or a company in your community.
3. Participate in the forums in which ideas will be shared.

How It Works

Up to four Blue Chip Enterprises will be designated for an award in every state and The District of Columbia. From these,



fifty one exemplary businesses—one from each area—will be identified. Ultimately, three National Representatives will be selected and invited to


attend the U.S. Chamber of Commerce Annual Meeting in Washington in April, 1991.

**All Entries Must Be Submitted by
January 31, 1991**

Review will be conducted by an independent panel of experts in enterprise.

For complete information call 1-800-AWARD 91.

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and Nation's Business.

Dateline: Washington

What's happening in the corridors of power that will affect your business.

By Mary McElveen

ENERGY

Outlook For Independence Is Linked To Education

The U.S. Energy Department will soon submit its recommendations for a national energy strategy to President Bush. But Energy Secretary James Watkins says America's ability to meet its energy-related challenges will depend ultimately on its success in improving the U.S. education system.

"The first priority is to invest in the human brain," Watkins told the Association Insiders, a group of business and trade-association leaders at a meeting at the U.S. Chamber of Commerce. Only then, he said, can America emerge from its current "quagmire of science and technology illiteracy" to solve the technical problems it faces in becoming more energy-independent.

Watkins said the new clean-air law will serve as a "very solid base" for a national energy strategy. "Without [the law], I don't think we'd have the incentive to do the things we have to do." ■



Energy Secretary Watkins urges improved technological know-how.

BENEFITS

Lower-Income Employees Eligible For Child-Care Aid

The long dispute over an expanded federal role in child care was resolved in a broad compromise combining two major elements of what had been competing plans.

One is an expansion of the earned-income tax credit—up to about \$1,000—for families with dependent children and earning under \$20,000 a year. The

bill earmarks \$12.3 billion over five years for the expanded credit.

The other element is a new program of state grants that will total \$2.5 billion over the next three years. States will use the money to provide direct child-care services or to increase their availability.

An additional feature establishes a tax credit for lower-income workers to help pay for health insurance for dependent children. ■

HIRING AND PROMOTION

Employers Win Major Fight With Defeat Of Quota Bill

Business escaped a potential litigation nightmare through defeat of a civil-rights bill that would have overturned job-related Supreme Court decisions that business had welcomed.

Frederick J. Krebs, manager of labor and human-resources policy at the U.S. Chamber of Commerce, disputed the claims of the bill's proponents that the legislation would not have resulted in hiring quotas. "The bottom line remains," he said. "If you can be hauled into court by the numbers, you will hire by the numbers." ■

Under the measure, employers could have been found guilty of discrimination based on race- and gender-related numerical differences between their work forces and the work forces in their communities.

The bill also would have expanded damages available to plaintiffs in job-related discrimination suits.

The fight over quotas and damages is expected to resume next year, when congressional proponents of this year's legislation are expected to introduce a similar bill. President Bush's veto of the civil-rights bill that Congress passed this year was upheld by a one-vote Senate margin. ■

REGULATION

New Air Law Directs States To Help Small Firms Comply

A provision of the new federal clean-air law requires states to provide compliance information to small companies.

The statute mandates reduction in emissions of various substances as part of a massive new complex of regulations.

Among the types of small businesses covered are dry cleaners, printers, bakeries, furniture finishers, paint shops, funeral homes, and laboratories. The legislation defines small businesses as firms generating less than 100 tons of volatile organic compounds and air toxins annually.

The law requires that states establish procedures for explaining in nontechnical terms what is required of small firms within their borders, specify the various deadlines for compliance, and provide direction on methods that small companies may pursue to meet the requirements.

The program was added to the House version of the clean-air legislation as an amendment by Reps. Rick Boucher, D-Va., and Ron Wyden, D-Ore. Boucher suggests that small companies call their state air-pollution regulatory agencies for details on when the agencies expect to have information available. ■

WORK FORCE

Employers Win Important Change In Immigration Law

The immigration bill that Congress passed before it adjourned in late October included significant provisions sought by business. Among the most important is an expansion of the number of employer-sponsored visas allowed annually for skilled workers and their family members. The legislation raises the number to 140,000 from 54,000.

"The provision will expedite U.S. companies' ability to bring highly and less-skilled workers here and will significantly reduce the nearly three-year backlog of skilled workers U.S. firms are already waiting to bring into the country," said Jill Scheldrup, associate manager for employee relations at the U.S. Chamber of Commerce. ■

Congress believes in free enterprise. They just have a funny way of showing it.



Congress never attacks free enterprise openly. But talk is cheap on Capitol Hill and it is costing American business billions.

Regulations and misguided policy threaten not only your survival but the very fiber of society.

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definitive voice for business in Washington. It is a single voice with the strength of millions, a federation of 180,000 businesses large and small, state and local chambers, trade and professional organizations and American Chambers of Commerce abroad.

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Capital is the fuel of free enterprise and the U.S. Chamber supports incentives to save and invest to keep it flowing.

The Chamber is fighting to cut capital gains taxes and prevent additional taxes. It is pushing Congress to accelerate energy independence. And is fending off costly mandated benefits, knowing that the common good is best served when enterprise is free to take care of itself.

Call 1-800-638-6582 and join the U.S. Chamber. Do it today.

Join the fight to put free enterprise, and the economy along with it, back on course.



**Join the U.S. Chamber.
Because the fight goes on.**

Making It

Growing businesses share their experiences in creating and marketing new products and services.

An Omaha Telemarketer Rings Up Sales

For many Americans, "telemarketing" means a telephone call that interrupts dinner, from someone selling something that no one in his right mind would want to buy.

As Steven A. Idelman is quick to explain, he and his company—Idelman Telemarketing Inc.—are not in that kind of business. "We understand that every call we make is going to somebody else's residence," he says. "It's their telephone. We try not to contact somebody at dinner. When somebody indicates that he or she wishes to exit a phone call—and they can say it in the tone of voice or a frustrated breathing pattern—we have the obligation to honor their desire, and to do so politely."

Idelman, 43, and his wife, Sheri, are the principal owners of ITI, an Omaha-based company whose nearly 4,000 employees—working at sites in Nebraska, Kansas, South Dakota, and Florida—will have made around 25 million calls by the end of this year.

ITI, founded less than five years ago, is one of the largest of what are called telemarketing service bureaus. It is an outbound service bureau, a company that places telephone calls on behalf of other companies—in ITI's case, a total of about 75 banks, publishers, insurance companies, and department stores, as well as colleges and universities.

Inbound service bureaus—the companies that take calls placed to 800 and 900 numbers—are a somewhat different breed. "Typically," Idelman says, "inbound operators have a different mentality. They're not as outgoing, not as aggressive." He is just starting to get into that business, by acquiring an Ohio inbound company with about 100 employees.

Idelman expects ITI's revenues this year to exceed \$60 million, up from \$40 million in 1989. The sales generated by its telephone calls will add up to hundreds of millions of dollars more.

As Idelman acknowledges, not all of ITI's calls will result in sales: "No matter how hard we try, just by placing a

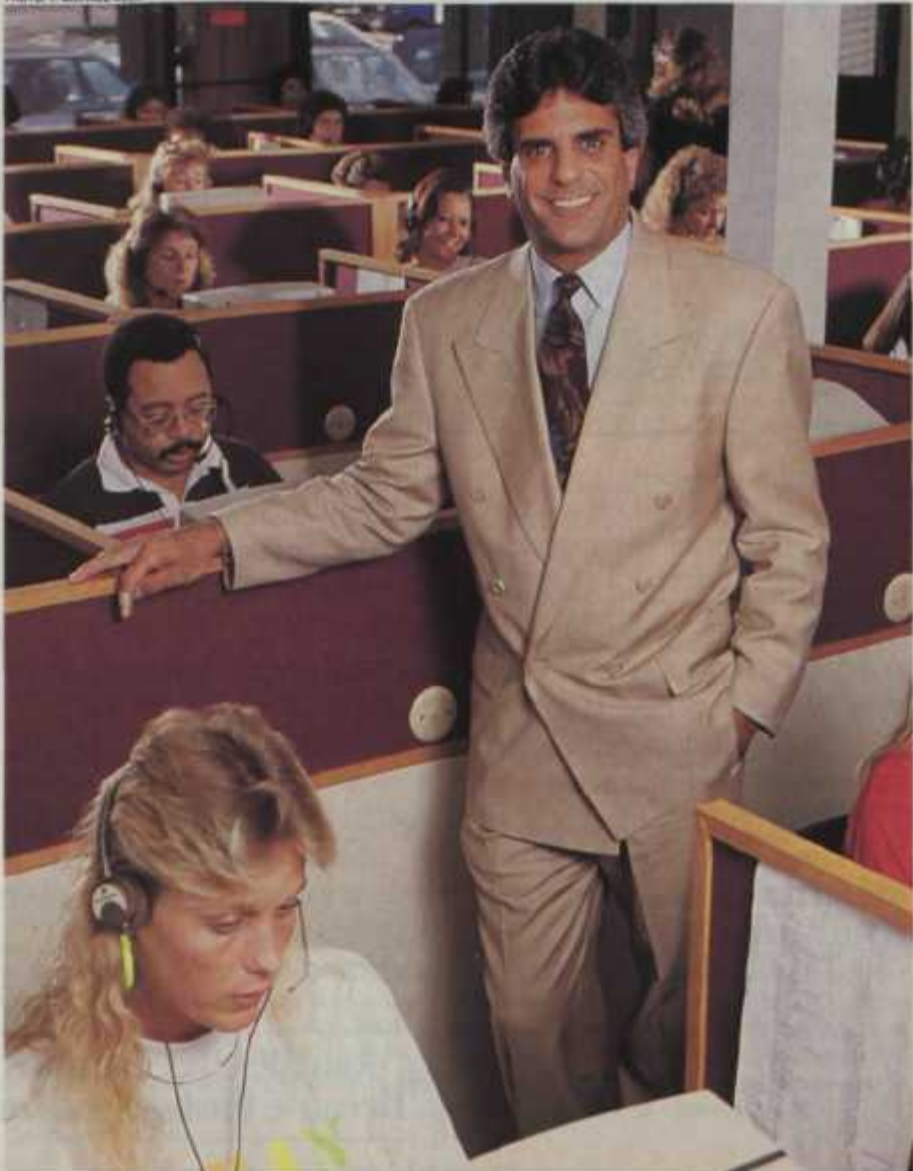
phone call we're going to upset some people." But he improves the odds against such an outcome by making calls from only certain kinds of lists. "We don't do cold-prospect calling," he says. "The calls we make in the consumer market go to people who are present or previous customers of the firms we're representing."

He says that his clients buy ITI's services for a set fee—typically, \$29.50 per operator per hour—rather than on a per-sale basis. "I don't want the incentive to oversell," he says. Even so, mea-

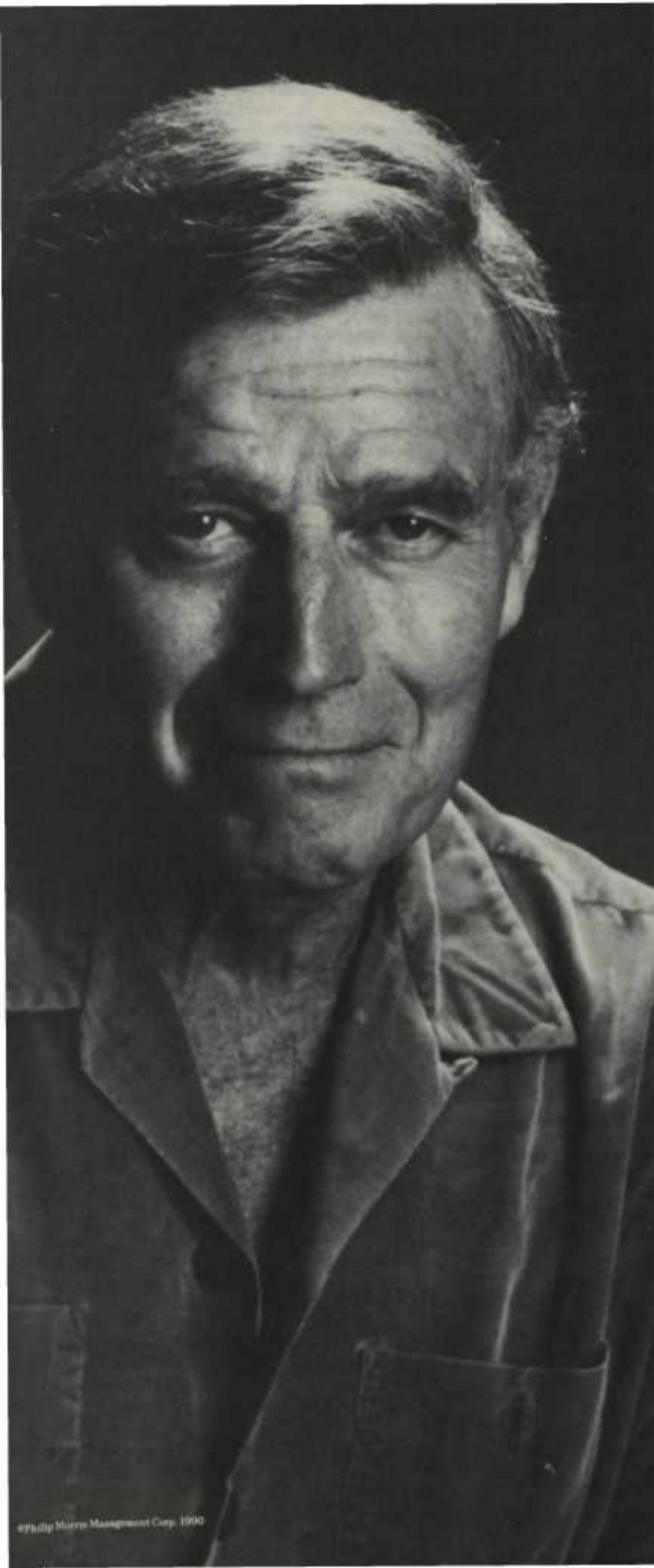
suring ITI's productivity is simplicity itself: "It's a very trackable medium. Every single call gets a disposition tally." The results have been sufficiently impressive to bring a steady stream of new clients to ITI's door. "We have done no prospecting," Idelman says, "other than two trade shows a year. We have grown predominantly through word-of-mouth."

For all the sleek efficiency of his Omaha operations, Idelman has seen the underside of telemarketing, too. He was introduced to the business 16 years ago, in his native Chicago. He was pursuing what sounds, in his description of it, like a woolly dream of a career as a

PHOTO BY MICHAEL KEAR



Steve Idelman's operators call millions of U.S. consumers.



*"When it comes to
the Bill of Rights,
I'm proud to play
a supporting role."*

CHARLTON HESTON
ACTOR

"Regretfully, one of the things I didn't learn until after I had finished school was that history is not only the most important subject, in a certain sense it's the only subject. I kind of make up for it now by speaking out on the Bill of Rights every chance I get.

"I see the Bill of Rights as one of the cornerstones of this country. It's one of several acts of genius created by our founding fathers.

"You could say that the Bill of Rights constitutes their considered thoughts and feelings about the absolute protections necessary for the individual citizens.

"It's powerful stuff."



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MAKING IT

"sports/entertainment entrepreneur," while his wife supported him by working as a veterinarian's assistant.

Responding to a newspaper ad, Idelman took a job in what he describes as a classic boiler room—a bank of seven phones on seven desks, held down by fast talkers trying to sell radio time to potential advertisers. Idelman struggled with his new trade for several weeks, but then he got the hang of it, and he turned into a stunningly productive telephone salesman.

Over the next dozen years, he worked for several telemarketing service bureaus, eventually commanding an Omaha operation with more than 600 phones and 1,200 employees. In 1986, honoring a noncompete agreement, he looked after his daughter for six months while his wife and two colleagues started Idelman Telemarket-

ing; he joined the firm as its chief executive officer in August of that year.

Idelman's success in telemarketing probably owes a lot to his natural talents as a salesman—he has the disarming directness of the breed, and he loves to talk—but even more to his fascination with telemarketing itself. So absorbed is he in the details of his field that he is co-author of a book on it, *How to Manage Growth and Maximize Profits in Outbound Telemarketing* (Prentice Hall).

He can expound at length on the hiring process, for example, and on how ITI deliberately keeps potential operators waiting for their interviews. The idea, he says, is to test their patience, "because you need to be patient to handle consumers."

Once operators have been hired, Idelman wants to keep them hired, even

though telemarketing is populated heavily by students, housewives, and other employees with shallow roots in the business. "We're in an industry that accepts turnover," he says, "but we think turnover stinks." To hold turnover to about one-third of the industry norm (estimated at 300 percent per year), he pays as much as \$8.25 an hour, plus bonuses and profit sharing.

In the end, though, telemarketing boils down to the encounter between operator and consumer—the call that may, despite every good intention, come right in the middle of dessert. "We tell everybody who works here that you make more money with your ears than you do with your mouth," Idelman says. "If you will listen to a consumer, you'll almost never wind up with an angry person."

—Michael Barrier

The Glory Of Real Chocolate Truffles

Last February, *The New York Times* published a brief article about a small store in Waterbury, Vt., and listed its phone number. The result was, the store's proprietor says, "a nightmare. The phone didn't stop ringing." To meet the demand the article spawned, he had to work 48 hours without rest.

The reasons for that extraordinary interest: The *Times* article appeared on Feb. 7—a week before Valentine's Day—and the store, Green Mountain Chocolate Co., sells handmade chocolates of extraordinarily high quality.

Green Mountain's proprietor is Jeff Hachmann, 35, himself a bit of a mountain (he stands about 6 feet 5 inches and weighs 235 pounds). His chocolate-stained apron proclaims his devotion to his craft.

Hachmann's store, which he runs with his wife and two employees, produces a wide variety of chocolate candies, including barks, candied fruits, "moguls" (nuts and caramel covered in chocolate), and butter crunch. But truffles are its glory. (The *Times* article quoted one local connoisseur who proclaimed Green Mountain's truffles the best in the world.)

Hachmann himself makes the truffles—dense balls of butter, cream, chocolate, and, often, nuts or liqueurs, which he "enrobes," as they say in the trade, in a chocolate coating. The truffles have a shelf life of only two or three weeks, since Hachmann uses no chemicals or stabilizers.

"Most truffles are made by machines now," he says, with obvious disdain,

"and they come in a perfectly round ball, and they're filled with a corn-syrup center. They're just balls of glop." By contrast, Hachmann squeezes each truffle's filling out of a pastry bag, and he produces only a couple of hundred pounds of truffles each week. They sell



PHOTO: T. MICHAEL REZA

Jeff Hachmann tempts the sweet tooth with chocolate truffles—and castles.

at the store for \$14.95 a pound, or \$21.95 by mail order.

Hachmann uses recipes that originated with his father-in-law, Albert Kumin, who was born and trained in Switzerland, and who now works in the store a few months of the year.

Kumin was the White House pastry chef during the Carter administration. He and Hachmann met in the early '70s, when Kumin was an instructor and Hachmann a student at the Culinary Institute in Hyde Park, N.Y. They later worked together at another school in suburban New York City.

Green Mountain, which opened in September 1988, is in fact owned by Kumin and his daughter, Julie, Hachmann's wife. Hachmann says he wanted it that way, because "I need somebody to control me."

Hachmann opened a second store last spring in Stowe, a ski-resort town a few miles up the road from the Waterbury store; he drives there every day at 6 a.m. to stock the shelves. He talks of opening two more stores near Waterbury, and even of buying machinery to help him make the truffles. It would have to be custom-made machinery, though—not the kind that makes the "glop"—and Hachmann grows sober at the thought of the \$100,000-plus cost.

"Now it's really enjoyable," he says, "because I have minimum overhead." (He opened with an investment of around \$40,000, and he has never had to borrow money.) Buying expensive machinery would mean committing himself to much larger sales, he says, "so I'm not too sure we'll ever go that route."

You may be wondering how much chocolate Hachmann himself eats. "Not that much," he says. "I nibble on it now and then." And some of you may be wondering about the phone number that stirred up so much excitement among *The Times*' readers. It's (802) 244-8356.

—Michael Barrier

How To Make Yourself Judgment Proof

Lawsuit explosion in U.S. makes it mandatory to protect yourself from judgments caused by creditors, customers, patients, employees, the IRS, or even an ex-spouse

For the first time ever you can now legally and ethically protect yourself and your property from lawsuits, creditors, and the IRS.

A new book, *The Complete Asset Protection Guide*, by lawyer and best-selling author Arnold S. Goldstein, Esq., will show you how.

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- Seven crucial points in negotiating settlements with creditors. See page 60.
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- A powerful sample letter which shows how to ask for extended payments with creditors. See page 77.
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- Advantages of general and limited partnerships and how to use them to protect assets. See page 187.
- How to legally divide assets in a marriage through trusts so that the business owner's spouse becomes "judgment proof." See page 161.
- Limited partnerships can shield your interests from the reach of most creditors. See page 188.
- How to obtain a release from an IRS Notice of Levy. See page 91.
- **Using corporations to avoid personal liability.** See page 190.
- Why you should immediately file for a Homestead Exemption to protect your rights regardless of your financial condition. See page 145.
- When to consider using multiple corporations. See page 192.
- Answers to important questions about Chapter 13. See page 118.
- How to avoid IRS seizure of bank accounts. See page 203.
- When using joint bank accounts can be a very dangerous practice. See page 169.
- When filing separate tax returns rather than a joint return can be advantageous in protecting assets. See page 205.
- How to get IRS seizures released and your property back. See page 91.

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Reach New Markets

By Albert G. Holzinger

The Arbor Crest Winery sits on a cliff 450 feet above the Spokane River valley in Washington state, a location that co-owner David Mielke describes as "the center of the world."

That global view extends to the winery's marketing efforts, as well. Its award-winning white and red wines are exported to Canada, Western Europe, and several Pacific Rim nations.

But just 10 years ago, international trade was far from the concerns of the brother-owners of Arbor Crest. David Mielke was a fruit-grower, and Harold Mielke was doing medical research at the University of California at San Francisco.

"I got interested in grapes, which are fascinating to grow," says David Mielke. "At the same time, my brother was becoming very interested in wine. We discovered our common interests one day and asked each other, 'Why not go into business?'" Arbor Crest Winery was soon launched with financial assistance from the U.S. Small Business Administration (SBA).

Seeking a niche in a highly competitive business dominated by large vintners, they decided to concentrate on dry, high-quality varieties of wine.

Their strategy proved successful. Within four years, says David Mielke, "we were selling wine in small amounts in a lot of places in the U.S.—in pretty much all of the states." Success at home prompted the Mielkes to consider reaching out to new markets abroad. "I guess no one told us that we couldn't export, so we did," David Mielke says.

Today, about 10 to 15 percent of Arbor Crest's production is shipped to overseas distributors sought out by the Mielkes, and they say the export share



PHOTO: ©DON HAMILTON

David Mielke sells Arbor Crest wines abroad to bolster sales and profits.

could increase substantially this decade.

David and Harold Mielke typify the increasingly common breed of U.S. business owners who are turning to overseas markets to bolster sales and profits.

As recently as 1983, no more than 10 percent of U.S. businesses exported the goods and commodities they produced, according to U.S. Department of Commerce statistics. But two developments in the late 1980s spurred exporting: U.S. economic growth slowed, and the

value of the dollar fell in relation to many other currencies.

From 1985 to 1989, the value of U.S. producers' exports increased 66 percent, to about \$364 billion. American exports last year consisted of about 80 percent manufactured goods, 11 percent minerals and fuels, and 9 percent agricultural products and other commodities. Also last year, U.S. exports of business services totaled about \$105 billion. Travel-service receipts and passenger fares accounted for about one-third of that total.

The U.S. government does not collect data by size of exporter, but the conventional wisdom among federal trade officials is that small and mid-sized businesses such as Arbor Crest are leading this U.S. assault on foreign markets.

"Anecdotally, we have seen a tremendous surge in interest" in exporting among small businesses, says Catherine Marshall, the SBA's associate deputy administrator for special programs, which include international trade. As an example of this heightened interest, Marshall points to an SBA export conference last year

held in Seattle. "Nobody left," Marshall says, referring to the small-business owners and managers from across the country. "They all attended even the specific sessions. It clearly had come to their consciousness that [exporting] is an important thing" to consider for long-term health.

As further evidence, Marshall points to the SBA's answer desk in Washington, D.C., which she says now receives "thousands" of trade-related calls a month. Just a few years ago, toll-free calls to the desk "were almost exclusively about loan programs," Marshall says.

These signs of small business's prom-

*Many U.S. small-business owners
are turning to overseas markets
to bolster sales and profits.
Can you afford not to join them?*

inent new role in global trade are supported by two private-sector studies.

According to a new survey by Dun & Bradstreet, a large, New York City-based provider of domestic and international business services, only 8.5 percent of firms with fewer than 100 employees currently export. Yet firms of this size so dominate the universe of U.S. businesses that they account for 25.7 percent of total exporters. In comparison, while 54.9 percent of firms with 10,000 or more employees export, they make up only a slightly higher share of total exporters—31.6 percent—than small firms, according to the survey. It was conducted of the Dun's 5,000, a statistically representative portrait of U.S. companies.

Readers of *Nation's Business*, approximately 73 percent of whom own or are otherwise affiliated with firms with fewer than 100 employees, are even more likely than small businesses as a whole to be involved in international trade. Some 43 percent of respondents to a recent "Where I Stand" poll attributed at least some sales to foreign buyers, with the largest share of respondents—26 percent—pegging overseas sales at 1 to 10 percent. (For additional survey results, see Page 20.)

Consistent with the perception of the SBA's Marshall that small-business interest in international trade is a new phenomenon, about 19 percent of respondents to the *Nation's Business* poll have been engaged in export or import activity for less than three years, with 8 percent having begun trading only during the past 12 months.

Many economic and political factors are contributing to the ongoing U.S. export boom. But these are the ones most frequently cited by business owners and trade experts:

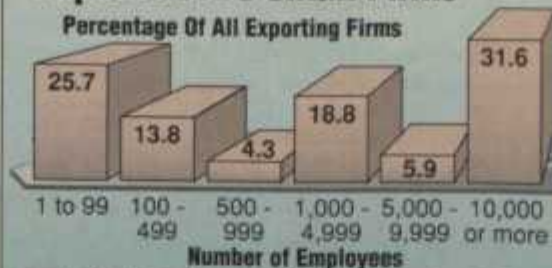
Smaller U.S. Firms Are Less Likely To Export, But...

Percent Of Such Firms That Export



A High Percentage Of Exporters Are Small Firms

Percentage Of All Exporting Firms



Source: The Dun & Bradstreet Corp., Economic Analysis Department

CHART: MARCY MILLINE

Foreign Competition At Home. The enormous U.S. trade deficits of recent years are evidence that while U.S. exports are growing, imports are rising at a faster rate. Consequently, competition in the American marketplace is more fierce than ever. Says William T. Archey, international vice president of the U.S. Chamber of Commerce: "You can't protect your home market now unless you also are in the fray abroad. If your only experience with foreign competitors is right here at home, you might not survive."

Emerging Markets Abroad. New markets are popping up around the globe, and well-established ones are presenting U.S. businesses with greater trade opportunities.

Chief among the new markets are the former communist countries of Eastern and Central Europe, which were all but

closed to Western goods until this year.

Among established U.S. trading partners, commerce with the European Community is expanding rapidly now as firms seek to establish footholds there in anticipation of the scheduled 1992 completion of the EC single-market program. This unification of product standards and trade regulations likely will make it much easier and more profitable to conduct trade throughout the 12-member European Community—the EC.

Trade with Canada, America's largest trading partner, is also growing briskly in the wake of the free-trade agreement recently implemented by the two nations. Also, free-trade talks are set to begin with Mexico, which ranks third in trade with the U.S. (Japan is second), and some are predicting establishment of a North American free-trade zone in this century.

While some trade barriers to U.S. exports remain worldwide, many have fallen recently as the result of a 1988 U.S. trade law that provides for tough retaliation against persistently protectionist nations.

There remains hope that additional barriers—especially in the areas of agricultural and services trade—will be knocked down beginning next year.



COVER STORY

This will come about if the approximately 100 nations that subscribe to the General Agreement on Tariffs and Trade successfully conclude the ongoing Uruguay round of negotiations, named for the nation in which they began in the fall of 1986.

The Flagging U.S. Economy. Strong foreign sales in times of weak domestic demand can help business owners reduce excess capacity or even add new capacity, thereby lowering per-unit production costs and increasing the profitability of all sales.

The U.S. economy was teetering on the brink of recession even before it was forced to absorb energy-price increases stemming from Iraq's invasion of oil-rich Kuwait. And many U.S. business owners and economists see weak domestic sales ahead, even if the Persian Gulf crisis is resolved soon.

In contrast, many foreign economies were more robust than America's before the outbreak of hostilities in the Persian Gulf. Unless full-scale war erupts or oil supplies are disrupted severely, prospects for sales in those nations remain good. This view is reflected by small exporters' responses to the Dun's 5,000 survey. Among firms with fewer than 100 employees, 54.8 percent of respondents expect higher overseas sales in 1991, while only 4.1

percent forecast a decline in trade earnings next year. The remaining 41.1 percent expect foreign sales to remain about the same.

The Slumping U.S. Dollar. When the U.S. dollar is strong, as it was about five years ago, American exports are usually more expensive than competing goods produced in nations whose currencies are weaker. But now that

the dollar is about 50 percent weaker than it was during the mid-1980s, U.S. products can seem like bargains in comparison with similar foreign goods.

Diminishing Product Lives. Rapid technological advances of recent years are shortening the domestic lives of products in many industries. Products that are considered technologically out of date in the United States may still represent extremely desirable high technology abroad, especially in less-developed nations.

In view of these compelling factors, far more small and midsized business owners would attempt to export their goods or services if they were not deterred by fear. Yet trade phobia is largely irrational, experts say, because almost any well-managed and well-established firm can export successfully if its owners are committed to expanding into new markets and are flexible enough to cater to the needs of customers whose customs and tastes differ somewhat from those of Americans.

"There is almost no limit to what you can sell overseas... if you really put your mind to it. Anyone with a quality product or service to sell [can succeed], regardless of size," says Marshall of the SBA.

Eugene J. Milosh, president of the American Association of Exporters and Importers, a

Top Importers Of American Goods In 1989



Source: U.S. Department of Commerce

CHART: MARCY MULLINS

Trade-Poll Results

While U.S. export activity has boomed in recent years, a great deal of room for growth remains: An overwhelming majority of businesses derive less than 10 percent of their revenue from overseas sales of goods or services, and almost half conduct no export or import activities at all.

This is but one of the findings of a *Nation's Business* "Where I Stand" survey, conducted in the September issue of the magazine. Following are the results of that poll:

1. What percentage of your company's revenue results from sales to foreign markets?

- 57% 0% of revenue
- 26% 1% to 10%
- 9% 11% to 25%
- 3% 26% to 50%
- 2% 51% to 75%
- 3% 76% to 100%

2. How long has your company imported or exported goods? (Percentages total less than 100 because of rounding.)

- 8% Less than 1 year
- 11% 1 year to 3 years
- 5% 4 years to 5 years
- 26% More than 5 years
- 48% No export/import activity

3. Which markets have major sales potential for your company? (Answers reflect multiple responses.)

- 45% Canada
- 24% Latin America
- 33% Western Europe
- 17% Eastern Europe/U.S.S.R.
- 15% Middle East
- 28% Asia-Pacific

4. Which factors deter your company from doing more foreign business? (Answers reflect multiple responses.)

- 26% Shortage of financing
- 30% Lack of sales leads

- 25% Difficulties in finding agents/distributors
- 27% Costs/complexity
- 17% Foreign trade barriers
- 10% Cannot produce more products for export

5. From which of these sources did your company seek trade assistance in the past year? (Answers reflect multiple responses.)

- 21% Federal government
- 23% State/local government
- 21% Industry/trade association
- 7% World trade center
- 16% National/state/local chamber of commerce

6. Would your company like greater access to any of these services? (Answers reflect multiple responses.)

- 42% Specific sales leads
- 33% Introduction to agents/distributors
- 15% Trade missions
- 19% Representation at trade fairs
- 16% Trade-potential assessment
- 16% One-on-one counseling

Exporting By The Book—And The Periodical

Exporting is the subject of more books and periodicals than you could ever find the time to read. Likewise, more person-to-person trade advice is available than you probably could absorb in a business lifetime.

To avoid information overload or confusion when learning how to do business abroad, start by visiting your local library and newsstand. You won't go wrong by selecting from the reading list below.

When you have acquired some basic knowledge about the export process, seek the advice of your state's department of international trade and your community's local chamber of commerce and world trade center. They are likely to be among the most user-friendly sources of trade information for the owners of small and mid-sized businesses.

Reference Books

● *Exportise*. Don't overlook the brand-new third edition of this comprehensive trade guide. It covers everything that's essential to successful exporting, from conducting market research to collecting debts. Best of all, this book was written by small-business owner John C. Rennie for his peers, so it's to the point and understandable. Available for \$49.50 from the Small Business Foundation of America, Inc.; (617) 350-5096.

● *The World Is Your Market*. This book's most notable feature is an exhaustive listing of federal, state, and private-sector sources of trade information and assistance. Author Clark C. Cassell also has done a commendable job of providing concise how-to information for trade rookies. The book is available free from regional Small Business Administration and Commerce Department offices.

● *Exporting From Start to Finish*. This nearly 500-page book by L. Fargo Wells and Karin B. Dulat is as comprehensive as its name implies. This is a worthy desktop reference for experienced exporters as well as novices; \$39.95 from Liberty Hall Press; (800) 822-8158.

● *The Arthur Young International Business Guide*. Author Charles F. Valentine seeks to give readers the attitude of "If they can do it, so can I." His

book is spiced with case studies and three trade-success stories. The price is \$29.95 at bookstores or from John Wiley & Sons; (212) 850-6000.

● *Import/Export: How To Get Started in International Trade*. Two distinctive chapters of this reference work by Carl A. Nelson are entitled "The Mechanics of Start-up" and "The Business Plan." This book also has a



PHOTO: T. MICHAEL KEZA

terrific glossary. The cost is \$14.95 from Liberty Hall Press; (800) 822-8158.

● *A Basic Guide To Exporting*. This straightforward guide to trade is a high-quality publication from the U.S. Department of Commerce; the price is \$8.50. Available from the Superintendent of Documents, U.S. Government Printing Office; (202) 783-3238.

● *Inside Washington: The International Business Executive's Guide to Government Resources*. When you consult the federal trade establishment, this can be your comprehensive phone book. Listings are easy to use because they are organized by subject, not by agency. Cost is \$49.95 from Venture Marketing Corp.; (800) 288-2582.

● *Directory of Leading U.S. Export-Management Companies*. This reference work contains detailed information about hundreds of export middlemen, including products handled, geographic area of specialization, and foreign-language capabilities. Available for \$49.95 from Bergano Book Co.; (203) 254-2054.

● *National Customs Brokers & Freight Forwarders Association Directory*. Need help getting your goods from here to there? Try this membership directory of about 600 shipping pros,

which includes addresses and telephone numbers. Cost is \$15; (212) 432-0050.

Periodicals

● *Business America*. This biweekly magazine for U.S. traders is loaded with useful tidbits of information, including surveys of market conditions in specific countries, state-by-state trade contacts, lists of Commerce Department country desk officers (the people in that massive bureaucracy who really can and will help you), and upcoming trade shows and exhibitions. It costs \$49 a year, from the Superintendent of Documents, U.S. Government Printing Office; (202) 783-3238.

● *North American International Business*. This relatively new trade magazine is first-rate, with lots of interesting, informative features on trade mechanics and opportunities. A one-year subscription is \$22.49; (800) 274-8187.

● *Export Today*. This is one of the best trade-oriented journals around. Its content is timely and diverse, and its presentation is appealing. A one-year, nine-issue subscription (no issues are published for February, April, or August) is \$95; (800) 825-0061.

● *The Exporter*. This monthly magazine isn't flashy, but what it may lack in glitz is more than made up for with solid, practical exporting information. The cost for one year is \$144. To order a subscription, call (212) 563-2772.

● *International Trade Reporter*. Another title in the Bureau of National Affairs' extensive library of informative, specialized newsletters, this weekly has in-depth trade and trade-policy news for experienced, dedicated traders. Novices beware. A one-year subscription is \$816; (800) 372-1033.





The Workers Compensation System Helps Some People

The Boston Elbow is a remarkable piece of science that actually helps replace an injured worker's physical strength.

And personal worth.

It's living proof that today's Workers Compensation System is helping injured workers receive exactly what they need to get back on their feet, back to work, back to the business of life.

It's the same system that has also helped generations of workers avoid injury—thanks to extensive injury prevention programs.

What You Should Know

Right now, in many states, Workers Compensation is being threatened by out-of-control costs, unnecessary litigation and underfunded, understaffed state-administered agencies. Obstacles that are spreading, state by state.

Obstacles that could hinder effective worker rehabilitation—like the example you see here. Something we can't let happen.

You should also know that the workplace is changing, and work habits are changing along with it.

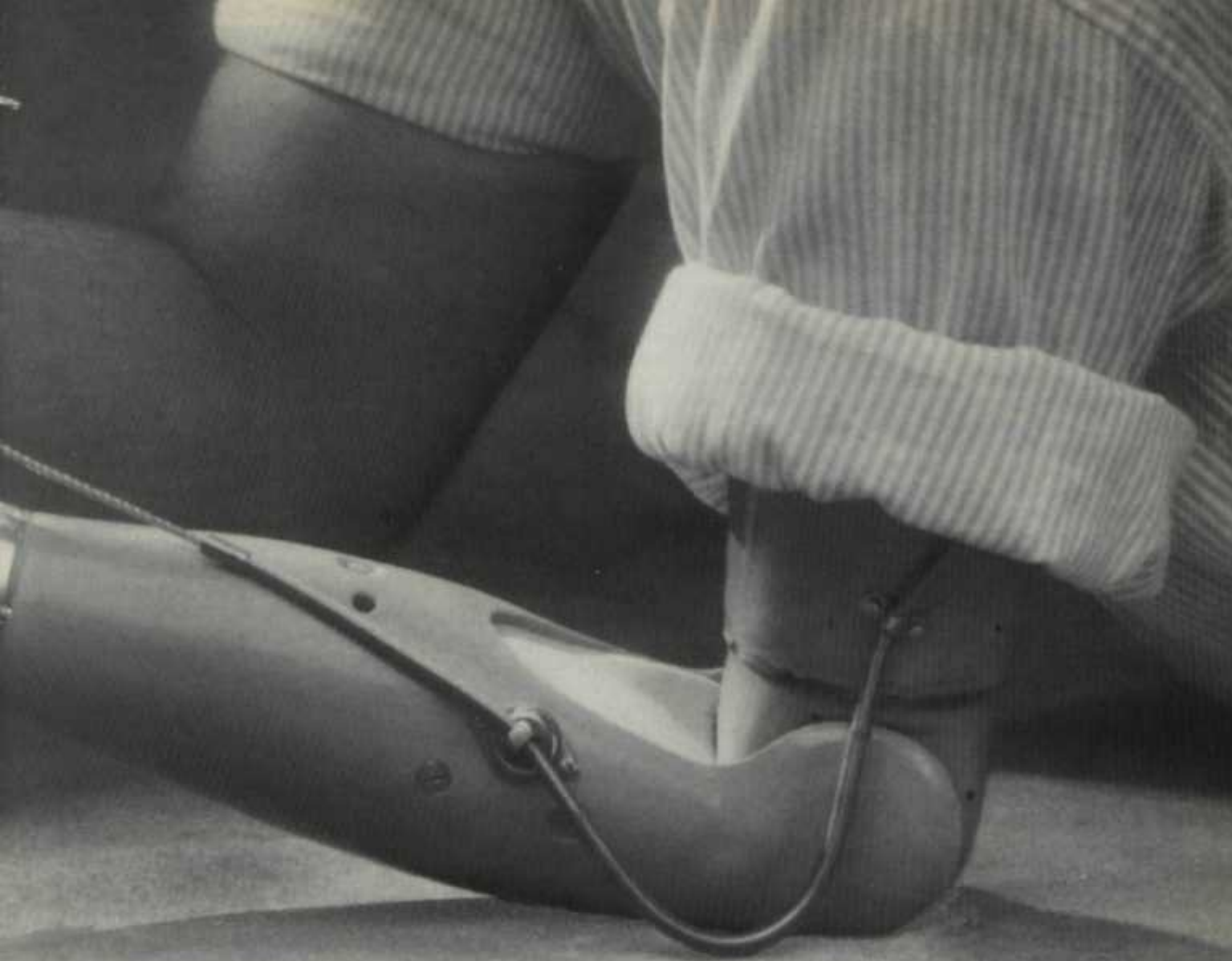
For example, heavy machinery injuries are less common today, while back problems, repetitive motion disorders and cumulative trauma are more common. This means we should help implement programs to help workers avoid these injuries.

Why You Should Care

America works best when American workers don't get hurt on the job. But if they do, everyone benefits when they return to work quickly.

Which is why we should learn to prevent

Help Strengthen Workers Compensation.



Get Back To Work. And Others Get Back To Life.

more occupational diseases and injuries. We should work closely with workers on-site, so they can be trained in the very latest safety procedures.

We should also give more attention to quality rehabilitation and suitable alternative employment—in the event a worker can't return to his or her original job.

Most importantly, we should get injured workers into the system faster from the very beginning—and insure more efficient, personalized follow-through.

All these things are possible, if we work together to support the system that's been supporting our workers for over 75 years.

What You Should Do

You can help by doing one of two things.

One: Be aware. Find out what's happening in your state, how you're affected, and what you can do to help. Talk to your insurance company or business trade association.

Or two: Share your views by writing to Gary Countryman, President and CEO of Liberty Mutual, 175 Berkeley Street, Boston, MA 02117. We'll help you get in touch with people in your state who can help.

Remember, for 75 years Workers Compensation has been here for all of us.

Today, it's time we returned the favor.



Because When A Worker Has An Accident, Everybody Gets Hurt.

Trade Technology

The personal computer has changed the way most business is conducted, and trade is no exception. Following are just a few of the many high-technology products and services that could make exporting a little bit easier and, more important, more profitable for you.

Export To Win. This PC software provides a risk-free way to learn how to—and how not to—export. The colorful, easy-to-use program will prompt you to establish and manage export operations for a fictitious manufacturing company, XEBEX, over a simulated five-year period. It will force you to tackle the real-life challenges of trade, including developing a marketing plan; and pricing, financing, and shipping exports. The program is compatible with all but the most stripped-down MS-DOS-based computer systems. Its price tag is \$149—and well worth it. Contact Nana Odoi at Strategic Management Group, Inc.; (800) 445-7089.



PHOTO: T. MICHAEL REZA

International Business Network. This fast-growing computer service should prove immensely useful to both experienced and novice traders. It can serve as a gateway to a wealth of trade, financial, and general information resources, including some of the world's top trade periodicals. The network also can facilitate sending communications worldwide. The network's electronic marketplace allows you to examine and employ the services of participating trade-related businesses such as shippers and freight forwarders. The network is easy to use and is accessible via any PC communications software. Membership costs \$50, which includes one hour of on-line time. Additional time is \$30 an hour, though some network services have surcharges. Contact International Business: North America; (914) 921-1400.

Network. Most on-line services aimed at would-be international business executives are devoted primarily to teaching how to trade and to making and nurturing trade contacts. Network's key aim is facilitating actual business transactions. At the heart of the Network system is a bulletin board read by members of world trade centers in more

than 80 countries. You post an offer to sell on the board in the hope that a foreign reader will inquire further via electronic mail, fax, telex, or telephone. If all goes well, negotiations occur and a deal is struck. Network is accessible from any PC equipped with a modem. You have to be a member of a world trade center to use Network, but membership, which includes many other benefits, is inexpensive. Contact the

World Trade Centers Association; (212) 466-7196.

WordNet. If you hope to do some business abroad, you'll almost certainly have to translate your sales, operating, and service literature into the languages of your target markets. Unlikely as

it may seem, one of the best, easiest-to-use translation services anywhere is run out of a basement in Acton, Mass. Any time of day or night, you send material to be translated to WordNet via almost any electronic-mail service or fax. Linguist Lee Chadeayne, WordNet's owner, then electronically sends your material to one of about 400 accredited translators in his freelance network. Depending on the complexity of the job, Chadeayne then may send the resulting translation to another linguist for editing. The final product is returned to you in a few days. The service costs roughly \$25 per hundred words, depending on language, type of material, technical complexity, and some other factors. Chadeayne also will have your documents typeset and printed for you, at extra cost. Contact Lee Chadeayne at WordNet; (508) 264-0600.

Seiko Multi-Language Translator. This handy device won't lead you to foreign customers, but it could make your life a bit easier when you're abroad in pursuit of them. The multi-language translator contains somewhat more than 5,000 words in each of four languages—English, French, Spanish, and Japanese. You type an English word on the key pad, select a language, and the phonetic translation appears on the liquid-crystal display. The translator doubles as an arithmetic and currency-exchange calculator. The suggested price is \$109.99 at department and electronics stores. Contact Seiko Instruments; (800) 873-4568.

New York City-based association of firms that conduct international trade, says: "There are so many smaller companies out there that have a niche, that if they would just go overseas and make the right contacts, there [would be] a real bright future abroad for them. American companies have tremendous advantages such as management expertise; it's just a matter of taking advantage of them."

Thus, the key first step to successful exporting "has more to do with the individuals involved than anything else," says John C. Rennie, a successful small-business exporter and the editor of *Exportise*, a primer on trading. He says that business owners who are committed to exporting, even if it entails some inconvenience and change, such as adapting to unfamiliar cultures, are almost certain to succeed eventually.

Once that commitment is made, there is no one "right" way to pursue exporting. Rennie's firm, Pacer Systems, Inc., based in Billerica, Mass., chose among the most common of these ways for smaller firms.

For just over 20 years, Pacer Systems has been selling American customers engineering services and technology products—such as training and computer systems—for aircraft and ships. Pacer expects to do about \$30 million worth of business this year. Over the past decade its sales have increased about tenfold, with some of this growth attributable to the firm's overseas sales.

It was about 10 years ago that Rennie decided to get into exporting. He had become aware of a Small Business Export Program under development by the Port Authority of Massachusetts and the Smaller Business Association of New England (SBANE).

The program, says Rennie, was to be "very customized." Six or so firms with outstanding trade potential were to be selected, briefed on the mechanics of trade, and taken on a trade mission. Rennie expressed interest, and Pacer was selected for the first briefings and a trade mission to Germany.

At the briefings by bankers and export-service companies such as international freight forwarders, Rennie learned that "there are an awful lot of people around to help you at low incremental cost if you get a good overseas response to your product. That was the most important lesson to me."

Pacer's products elicited some customer response in Germany. And with

the help of connections made through the SBANE program, Rennie subsequently sold several flight simulators there. About 10 percent of Pacer's sales this year will be to overseas customers, and Rennie says that percentage could double by 1994.

Of course, there are ways to begin reaching new markets other than by seeking help from government agencies or taking part in trade missions and trade fairs. The best methods for you will depend on the nature of your product or service and the resources your company can afford to divert to foreign market expansion.

Here are the essential steps to successful exporting, along with some of the most popular ways of carrying them out:

Pick A Target. This first step is the most important. Your sales efforts are not likely to succeed if your wares are commonplace or are incompatible with the local tastes or customs of your target markets, or if there are restrictive customs duties, or if prohibitive local taxes or regulations apply.

Extensive research is essential for finding suitable markets. Aside from generally excellent state and federal market data, sources of information include books, periodicals, and computer databases. (See the resources lists on Pages 21, 24, and 26.) Excellent data also can be obtained at nominal cost by calling the toll-free Export Opportunities Hotline of the Small Business Foundation of America: (800) 243-7232; in Massachusetts, call (800) 244-7232.

Mark Van Fleet, director of export expansion of the U.S. Chamber of Commerce, suggests that you contact the American chambers of commerce in prospective markets. The so-called Am-Chams, he says, "represent firms that have already been successful in their markets. They can give you the inside story on how to do business there." Van Fleet can provide you with an Am-Cham directory: (202) 463-5486.

Find Customers. There are several ways that government agencies can help you immensely in this regard, including providing lists of the aforementioned trade fairs. Help also is available

from trade consultants, international attorneys, trade-management firms, regional and international banks, and potential agents and distributors.

You can take on as much or as little marketing as you think is prudent, balancing the amount you can afford to pay trade specialists against the time and money you can devote to firsthand research and sales presentations. Rennie suggests employing an export-man-

options. (See the article on Page 26.)

Ship Your Wares. Novice traders should seldom if ever attempt to ship their exports on their own. Specialized packing, U.S. and foreign paperwork, and other customs requirements constitute a potential minefield for all but experienced specialists. But there is help: Freight forwarders and custom-house agents who do this sort of work charge relatively small fees.

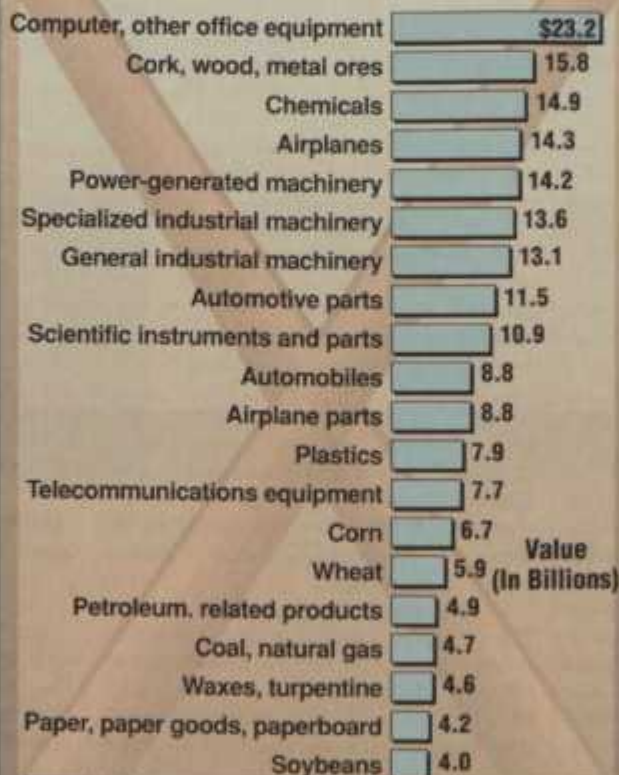
Get Paid. If you limit your sales to politically stable countries with freely convertible currencies, and if you check credit references carefully, there is no more financial risk involved in exporting than in doing business with U.S. customers. There can be more complexity, however, because getting paid for overseas sales often involves financial instruments such as letters of credit and bank drafts. Bankers and federal and state government specialists can help.

If all of this seems overwhelming, do not be dismayed. No one said finding new markets was easy—just potentially profitable.

Commit yourself to pursuing export opportunities for your firm, and take the rest of the process one step at a time. The resources listed in this Cover Story package are just a few of the many available to you, most at low cost or no cost.

And take heart in the fact that your first foreign sale and shipment will be your most difficult. As Leslie Stroh, publisher of *The Exporter* magazine, recently told a congressional committee, "Expertise at exporting, like playing a piano, is a function of frequency—practice makes perfect."

America's Top 20 Export Products In 1989



Source: U.S. Department Of Commerce

CHART: MARCY MILLINS

agement firm for at least a year. On the other hand, the Mielkes in Washington state did the work themselves when they found overseas distributors for their Arbor Crest wines.

"We started by looking for potential customers in the phone book," says David Mielke. "For example, we said, 'Somebody in Korea sells wines. Let's find them.'"

Obtain Financing. The community banks commonly used by small and mid-sized business owners are generally unreceptive to export financing. Regional and international banks and government programs are your principal



Help From Uncle Sam

Federal agencies sometimes are as frustrating to deal with as they are helpful and informative. Still, no potential exporter can afford to ignore Washington as a valuable source of information and assistance. Below is a highly abbreviated guide to the federal trade bureaucracy.

Department of Commerce. This granddaddy of federal trade-information agencies can make available virtually all the information and assistance you'll ever need to succeed in international trade. But tapping into this expansive and fragmented mother lode of knowledge can be a challenge. The agency can provide you with foreign-market information, help you find an overseas agent or distributor, give you specific sales leads, and help you judge the creditworthiness of your foreign clients. It also can help you iron out the details of participating in a foreign trade show or a "matchmaker" mission and inform you of export paperwork and licensing requirements. For more details on services, call (202) 377-3181. For more information on publications, call (202) 377-5494. Or call your nearest Commerce district office.

Small Business Administration. The SBA can provide you with trade counseling, legal advice, and a wealth of general and country-specific trade information, including the comprehensive *Exporter's Guide to Federal Resources for Small Business*. (The book costs \$4.50.) The SBA also conducts an Export Revolving Line of Credit program that can be tapped for short-term pre-export and export financing. For details on trade information and counseling, call (800) 368-5855; for information on publications, call (202) 653-7794. Or call the SBA office nearest you.

Department of Agriculture. This agency's Food and Agriculture Service offers a number of trade-related information services to potential exporters of agricultural products. Notable are a monthly magazine and an on-line database of overseas sales opportunities. For details, call (202) 475-3418.

Agency for International Development (AID). This agency can facilitate U.S. exports to developing nations serviced by AID programs. The agency can inform you of upcoming purchases of AID-financed commodities by foreign purchasers. Details: (202) 647-1850.

COVER STORY

You Can Find Financing—If You Know Where To Look

By Bruce W. Fraser

When Custom Wheel Lights Inc., of Fort Worth, was unable to obtain adequate export financing from troubled lending institutions in Texas earlier this year, it turned to the Texas Department of Commerce.

That state agency guarantees up to 85 percent of loans by private lenders to small and mid-sized companies for working capital and equipment used in export activity.

Custom Wheel Lights, which makes high-intensity reflectors and decals, secured a \$350,000 line of credit to finance a portion of its fledgling export business.

The Texas program is one of many that states have developed to help small firms overcome a long-standing obstacle to export activity—a tight supply of commercial and federal government financing.

Direct loans for exporting have not been generally available to small businesses. "The problem many times is not an unwillingness [by community banks to do export financing] but a lack of knowledge of how to do it," says Frank H. Mynard, chairman of the small-business unit of the American Bankers Association and president and chief executive officer of the Bank of Northern Illinois, which is based in Waukegan.

Credit is particularly tight right now. Banks' loan portfolios are under intense scrutiny by federal and state regulatory officials and their own boards of directors, and loans to small companies that are undercapitalized are especially scrutinized.

"The less capitalized the borrower, the greater the lender's reliance on collateral for the source of payment," explains Harvey Mackler, senior vice president at United Jersey Bank/Central in Princeton, N.J., which provides credit to exporters and importers.

"The Texas program was a godsend for us," says Larry Ragland, president and founder of Custom Wheel Lights. Ragland's exporting efforts to date have been so successful that he now is pursuing additional markets overseas for a safety kit of bicycle reflectors that are printed with characters such as

the Ninja Turtles.

There has been a surge of such export-assistance programs in states and even in large cities over the past few years, prompted by the growing desires of small-business owners for more capital, less bureaucracy, and better education about exporting.

Most such programs are less than a decade old and work closely with the Export-Import Bank of the U.S. (Exim-



PHOTO: T. MICHAEL REZA

Eximbank's George Donegan warns that federal programs have limits.

bank), the chief source of export financing and guarantees at the federal level. In fact, Eximbank, which has had its authority to make direct loans cut back sharply in recent years, has reformatting its programs to a large degree to make them more compatible with those of states and cities. Currently, Eximbank's city-state "outreach" program conducts cooperative programs in three cities and eight states and operates a regional program in the New York-New Jersey area.

California has the oldest and most active state program, having processed more than 200 working-capital loan guarantees for exporters over the past five years. This represents nearly \$60 million in bank loans—equal to one-tenth of Eximbank's current direct-loan budget—and over \$200 million in export sales. Altogether, the effort has spawned 4,800 new jobs since 1985.

Emboldened by its success, California plans to step up the pace. L. Fargo

Bruce W. Fraser is a New York-based freelance writer specializing in business and financial issues.

Wells, director of the California Export Finance Office, expects the state soon will process roughly 100 working-capital loan guarantees a year. This could yield over \$30 million in loans annually, he figures, and about four times that amount in export sales.

Marie V. Torres, director of the 4-year-old export-finance program of the Maryland Industrial Development Financing Authority (MIDFA), calls her state's program a success. As an example of its work, she cites the Overseas Marketing Group Co., of Baltimore, an exporter of educational and training equipment and materials for libraries and engineering laboratories worldwide.

Previously, because of limited working capital, the firm had difficulty obtaining local bank assistance and bidding on projects overseas. But earlier this year, with guarantees of \$350,000 from MIDFA on a loan, Overseas Marketing was able to bid on additional projects in Malaysia and East Africa. "Without this support," said owner Morris Tischler, "our growth pattern would have been very slow because we're pulling ourselves up by the bootstraps."

Over time, such grass-roots programs not only should boost the funds available for export financing but also should provide firms with the "detailed help they need" to succeed in foreign markets, says Kenneth Keach, president of Washington state's Export Assistance Center.

Last year Keach's agency provided \$10.8 million in financing to state exporters.

Other benefits could accrue, too. Texas, for instance, is trying to dispel the public's poor perception of governmental assistance programs by "making it as easy as possible for people to apply," says Edward Sosa, export finance coordinator for the state's Department of Commerce.

Of course, local banks and state and local governments are not the only sources of export financing. For example, foreign banks frequently can be nuggets to mine. European banks such as National Westminster Bank, USA, and Japanese banks such as Daiwa Bank Ltd. are playing a big role in U.S. export financing.

And some business owners whose trade-finance requests have been met

with stony silence at international banks are being extended a welcome mat these days at regional banks.

For example, at Southeast Bank in Miami, which has had a long-standing presence in international banking, credit criteria are being adjusted downward for small and mid-sized businesses, especially those in Florida. "We're very flexible," says Manuel Lasaga, vice-president and senior economist.



PHOTO: © CHARLES THATCHER

Larry Ragland sells reflectors worldwide with the help of state financing.

Also, it would be a mistake to write off Washington as a source of trade-finance assistance. For novice exporters, Eximbank is the best place among federal agencies to scout. As the chief export-credit agency of the U.S. government, Eximbank helps finance overseas sales of American goods and services by direct lending, loan guarantees, and insurance. This assistance allows U.S. businesses to finance exports without undue risk.

Despite severe cutbacks, the bank has \$612 million in its direct-loan program—down from \$5.5 billion in 1981. It has an additional \$10.2 billion allocated for 1990 for guarantee and insurance programs.

At Eximbank, smaller firms can obtain up to 90 percent of a working-capital loan. Usually this involves pre-export financing to help fill export orders.

Also, Eximbank can help businesses prepare necessary marketing plans, says George Donegan, the bank's depu-

ty vice president for marketing and program development. "Lots of entrepreneurs," he says, "can make the product or service and can sell it but don't take the time to do the business planning."

Eximbank offers political- and commercial-risk insurance, too. Assistance from the bank does have limits, however. Donegan says small-business owners often approach Eximbank for equity or venture capital. "That's not going to come from the financing community or government programs," he says. "It's only going to come from private investors."


Eximbank has a small export-business advisory service; the phone number is (800) 424-5201. If you decide to avail yourself of this or other bank services, be sure to get the Eximbank Certified Bank List and Trade Finance Referral List.

Another possible source of trade financing in Washington these days is a quasi government agency, the Overseas Private Investment Corp. (OPIC). OPIC can provide direct loans of up to \$6 million and can guarantee loans up to \$50 million.

It also can provide political-risk insurance protection in the event of currency inconvertibility, expropriation, or civil strife to

American companies interested in trading in the developing countries. OPIC recently wrote \$100 million in insurance coverage for a single project. OPIC also can provide market data and investment counseling; the number to call is (800) 424-6742.

In short, while the challenges facing small and mid-sized companies seeking export financing are formidable, they are not insurmountable. You just have to know where to look for help. ■

 To order reprints of this cover package, see Page 62.



Benefits Update

Trends and developments that will keep you current in the field of employee benefits.

By Roger Thompson

PENSIONS

Congress Debates Simpler Rules

After years of making pension laws more complex, Congress has been considering a proposal to simplify them somewhat. The proposal's chief architect, Sen. David Pryor, D-Ark., said in introducing the legislation: "Since the passage of ERISA [the Employee Retirement Income Security Act] in 1974, Congress and the Treasury have added layer after layer of complexity and regulation to the pension system. This bill attempts to peel back a few of those layers."

The Employee Benefits Simplification Act is designed to encourage pension portability and discourage employees who haven't reached retirement age from spending their distributions from 401(k) savings plans when they change jobs. The measure also would streamline the way pension and nonpension benefits plans legally define the terms compensation, highly compensated employees, and leased employees.

Lobbying groups that focus on benefits issues have hailed the bill as a step in the right direction, though they have criticized specific parts of the legislation. "It contains some provisions that are not universally popular," says Lisa Sprague, manager of employee-benefits policy for the U.S. Chamber of Commerce.

Chief among those provisions is the "portability" requirement, under which all pre-retirement distributions from 401(k) savings plans would have to be transferred to an IRA (Individual Retirement Account). Under current law, an employee may keep the money but must treat it as income for tax purposes as well as pay an additional 10 percent tax penalty.

While the Bush administration generally supports simplification of pension laws, it opposes Pryor's bill primarily because it would produce a "significant" revenue loss. The federal treasury collects millions of dollars each year from taxes on the pre-retirement distribution of 401(k) savings accounts. Under Pryor's bill, however, all such distributions would be transferred tax-free to IRAs. ■

INSURANCE

Life Insurance As Disability Income

A growing number of insurers are offering a type of individual life insurance that makes it possible for the terminally ill to receive benefits before death. With a little help from Congress, the same feature may become common for group life insurance provided by employers.

Insurers have dubbed this twist on life insurance a "living benefit" because it is paid before the insured person dies. About 40 insurers now offer living benefits under individual life insurance policies, says Donald F. Minner, a consultant with Hewitt Associates, based in Lincolnshire, Ill.

In addition, Minner says, a few employers have added the living-benefits feature to their group life insurance

policies. The money provided by this benefit could help pay for a catastrophic illness. "Employers view this as an alternative to help employees ease their concerns about long-term care," he says.

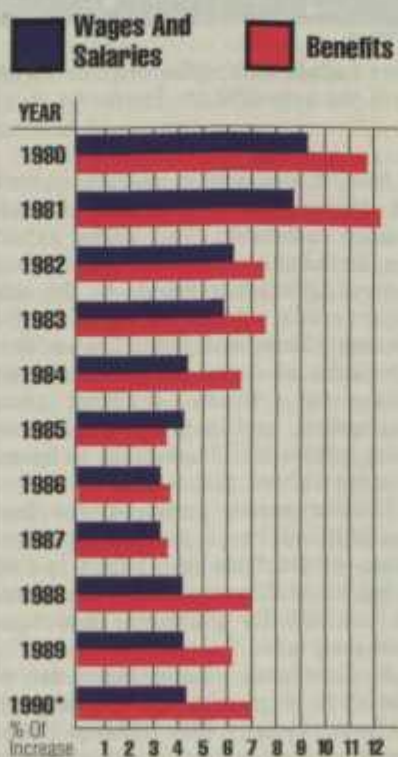
Although many employers have expressed interest in living benefits, this feature is not expected to become widespread until Congress makes payouts tax-exempt. The Internal Revenue Code declares that life insurance benefits paid to beneficiaries upon the death of a policyholder are not taxable income, but the code does not specify the tax status of benefits paid to policyholders before death.

A bill to establish tax-exempt status for living benefits paid to a terminally ill policyholder was introduced by Sen. Bill Bradley, D-N.J. Similar legislation was introduced in the House by Rep. Barbara Kennelly, D-Conn. The eventual prospects for such legislation appear favorable, says Janet Shepherd, a Hewitt consultant. "It should be non-controversial." ■

COMPENSATION

Benefits Outpace Wages

(Annual Rate Of Increase)



*First six months of 1990
Source: Bureau of Labor Statistics

MANDATED COVERAGE

Repeal Efforts

It now seems certain that small companies in Massachusetts will win their two-year battle to repeal the law requiring most employers to provide health insurance for their employees.

Voters in both the Democratic and Republican parties chose candidates for governor who repeatedly said they were in favor of repeal of the state's health-insurance mandate.

The law, passed in 1988, once was celebrated as a model for other states. It would require all businesses with six or more workers to provide health insurance or pay the state \$1,680 annually per employee for such coverage.

The Massachusetts Legislature attempted to postpone implementation of the mandate for two years, until 1994, but Gov. Michael Dukakis in August vetoed the postponement. The incoming governor is expected to advocate repeal in the next session of the Legislature. ■

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MANAGING

Checking Up On Workers

By Jane Easter Bahls



PHOTO: © PHIL SOUBERS

Nabors Alaska Drilling's winning defense in a privacy suit by a former employee over drug testing cost \$100,000 in legal fees, says President James C. Taylor.

The American public's increasing concern with personal privacy can cause a dilemma for employers. They need extensive information about employees or job applicants to comply with federal regulations and to make prudent decisions about hiring, promotion, security, insurance, discipline, and termination. On the other hand, a company that is too diligent in probing for that information can find itself the target of a lawsuit for invasion of privacy.

"If the employer tries to obtain information about the employee's life with unusually intrusive methods or using the employer's economic power to coerce private choice, there's a risk of liability," says Prof. Henry H. Perritt of the Villanova University School of Law, near Philadelphia. Perritt, who focuses on employment law, is the author of *Employee Dismissal Law and Practice* (John Wiley & Sons).

"It's a difficult course for the employer to tread," says attorney Albert

Zakarian, who specializes in employment litigation for the law firm of Day, Berry & Howard, in Hartford, Conn. Zakarian says that if a company fails to screen an employee adequately before hiring and the employee harms someone, the company might be sued for negligent hiring.

He states the employer dilemma in stark terms: "If you ask too much, you get in trouble, but if you ask too little, you get in worse trouble."

An example of the difficult situations that can arise occurred at Nabors Alaska Drilling Co., in Anchorage, when oil driller Paul Luedtke underwent a company-requested physical examination in connection with an offshore assignment. The test revealed a trace of marijuana in his urine. Luedtke, who was then suspended from his job, said he had assumed the sample would be tested for blood sugar and kidney problems, and he hadn't expected a drug test.

The company told him he would have to pass two subsequent drug tests before he could return to work. Luedtke refused to take the tests, was discharged, and filed a privacy suit.

The company won the case, but not

Too much—or too little—probing into employees' private lives can be risky for an employer. Here are tips to help you avoid costly lawsuits.

before it had spent more than \$100,000 in legal fees over five years.

James C. Taylor, president of Nabors, maintains that the vast majority of the company's employees support the testing program. "A drilling rig is a dangerous place to work," he says. "Nobody wants to work for or with someone who's ... on drugs."

Taylor says the company researched the issue of employee drug testing thoroughly and consulted its attorney before starting the testing program. Conducting a drug test without notice during Luedtke's physical was a company error, Taylor says. "We were in the process of telling everybody about the drug tests—new forms were being printed," which would have informed people about the program, he says.

As the Nabors case shows, employee-privacy issues are growing more complex. Employment-law attorney Kurt Decker of Stevens & Lee, in Reading, Pa., says: "Legislatures and courts are increasingly concerned about employment privacy. While employers may have legitimate business interests that sometimes require infringing on employee privacy, there are compelling reasons to limit this intrusion where no legitimate interest exists."

Traditionally, employees have no control over the information that employers collect and maintain about them. "If the employee provides information, the traditional attitude of the law is that the employer can use it as he sees fit," says Prof. George Trubow, director of John Marshall University's Center for Informatics Law, in Chicago. Unless there's a specific promise to use the information for a particular purpose only, most workers who object to the company's practice have just three choices: put up with the practice, object to the practice and risk termination, or quit the job.

With increasing demands for privacy in all areas of society, Congress has enacted laws protecting privacy in consumer credit records, educational records, and federal government records. Several state legislatures have extended these rights to private employment. Various states now authorize employees to inspect their personnel files, correct inaccuracies, add their own version of disputed information, and restrict

Jane Easter Bahls is a frequent contributor on business and legal topics for Nation's Business and several other national magazines.

the disclosure of employment information to third parties. Numerous states also forbid employers to use polygraph tests and restrict testing for drug use and AIDS.

According to Decker, employers would do well to protect the privacy of their employees regardless of whether they're bound by law to do so. If employers aren't careful in collecting information from employees and in granting others access to it, he says, state and federal legislatures will likely impose further restrictions.

Employers should pay special attention to these areas related to gathering and using information:

Intrusive Activity: Employers have been found liable in certain court cases involving intrusive collection of information. Some employees charge that their reasonable expectations of privacy have been violated by the methods that employers used to collect information; others contend that the information requested is none of the employer's business.

John Marshall University's Trubow says court cases often hinge on the fair expectations of the employee. As an example, he says, people expect to have to reveal information about their employment history, criminal record, and medical problems on job applications, but they don't expect hidden surveillance cameras. "If the employer announces that certain areas are under surveillance," he says, employees may choose not to work under those conditions, but they can't say they weren't warned.

In addition, courts expect employers to balance the employee's right of privacy with their own need for job-related information. Often, they ask whether the employer can reasonably justify obtaining the information, given the requirements of the job. A Kentucky court ruled that a manufacturer who made motion pictures of employees at work for the purpose of studying their methods did not violate their privacy.

Is the method of collecting information intrusive? There's no clear-cut standard, but common sense should provide a reasonable guide, Trubow says. If company policy permits testing employees for drug use only when the supervisor believes there's probable cause, it's not a good idea to haul a worker off in front of other employees for drug testing.

Unfair Use Of Information: Basically, unfair use occurs when information is used for a decision unrelated to the purpose for which the employee provided it. For instance, gleaning medical data from insurance-benefit or counsel-

ing files and using it for job-related decisions could be a violation of privacy. So could basing decisions on information that a reasonable employer would know to be inaccurate or irrelevant.

Decker cautions about placing extraneous information in an employment file. Suppose, he says, that an employee undergoes a urine test at the request of



PHOTO ©SAL DIMARCO-BLACK STAR

Be careful in employee-privacy matters, says lawyer Kurt Decker, an author on the subject.

a supervisor who believes that worker might be on drugs. The test proves negative, but a report goes into the file. Later, a secretary who has seen the report informs co-workers that this employee was suspected of drug abuse. "If the employee is denied a promotion because of it, he's not going to stand for it," Decker says. The result may be a lawsuit.

Breach Of Confidentiality: Disclosure of information that an employee assumed would be confidential comes under this heading. It might involve an employee who cites medical problems for excessive absenteeism. Because a promise of confidentiality is an enforceable contract, an employer who gives such a promise risks a lawsuit for disclosing information obtained under it.

Regulating Private Conduct: Some employees claim that their privacy rights have been violated by an employer's attempts to regulate the employees' lifestyle off the job. Employers might attempt to regulate social contacts, additional employment, and public image. For instance, a library in Pennsylvania fired a librarian and a janitor because they were living together in "open adultery," offending community standards. Although the court ruled for the library, the lawsuit took two years to wend its way through court.

When is regulating lifestyles intrusive? When the behavior in question has no real bearing on the job, say both

Decker and Trubow. For instance, Trubow says, if a drug test on a Tuesday picks up traces of marijuana usage from the past weekend but job performance hasn't suffered, the employer may be overstepping the bounds by interfering. If the employee is responsible for the safety of others, however, the employer can take immediate action.

The nature of some jobs might justify regulation of employee lifestyles. Workers on call to provide emergency services involving the health and safety of customers can be required to meet standards that deal with their ability to function effectively if summoned to work. The key is to develop a clear policy and communicate it to the employees, Trubow says. "It's the surprises, sneakiness, and overreaching the interests of the employer that lead to privacy claims," he says.

While employers can face litigation over the use of personnel information, they also risk lawsuits when they refuse to divulge it. A union or other

third party might want such data as the basis for a complaint of racial discrimination. An employer who refuses to cooperate on the ground of privacy might have to defend that refusal in court.

"The question is balancing how much the third parties need the information to prove their case, compared to how intrusive the violation of privacy is," says Prof. Perritt of Villanova University. If the information in question consists of medical records or psychological-test results, releasing it to a third party is a greater intrusion on privacy than merely releasing salary figures. "It's a difficult problem for employers," he says.

Here are guidelines to help you guard employees' privacy while fulfilling your need for information:

- Make sure any intrusions into the employee's private life are job-related. "Don't involve yourself in stuff that's none of your business," says Perritt. Whether you're seeking personal information on a job application or requiring a particular manner of dress, restrict your requests to matters that truly affect job performance, public relations, and other business matters—and be able to defend your decision in court.

- Provide fair notice. If you're going to install a surveillance camera, or phase out smoking in the office, or begin testing randomly for drug use, inform your employees. They're not likely to turn in their resignations en masse, and you'll avoid triggering the

surprise and outrage that often underlie employees' privacy claims.

- Before placing information in an employee's file, make sure that it is accurate, complete, and relevant.

- Avoid promises of confidentiality, and make sure you keep any such promises that you do make. If you tell employees that you'll use their medical records only for health-insurance purposes, don't start using the records to screen candidates for promotion. Make a good-faith effort to abide by your employees' reasonable expectations of privacy and confidentiality.

- Restrict in-house access to employee records to people with a legitimate need to know. "If people request information about an employee, only provide those parts of the record they need," says employment-law attorney Decker. For example, a supervisor considering an employee for promotion doesn't need the individual's medical records.


- Discard outdated information. Decker recommends having the personnel office periodically check employment records and destroy information that is no longer relevant, even if there's no collective-bargaining agreement that requires purging of records. For example, consider discarding negative drug-test results, because the mere fact that an employee was tested can damage that worker's reputation.

- Check with your lawyer before administering polygraph tests (now generally barred by federal law), honesty tests, personality tests, and similar data-collection techniques.

- Avoid intrusive data collection. If you're concerned about an employee's possible alcohol or drug use, look for evidence on the job such as a drop in performance or frequent absenteeism. Select the least intrusive alternative to meet your goals, and follow clear company policies. (Of course, if the job is such that even minor impairment would pose a danger to the public, intrusive data-gathering measures may be necessary and defensible.)

Although there is no guarantee that even the most prudent data-gathering procedures will always insulate a company against a privacy lawsuit by an employee, faithful adherence to such procedures can at least buttress the company's defense.

"The cases where an employee wins usually involve extreme conduct on the part of the employer," says Peritt. "Employers need not worry if they treat their employees with dignity in a systematic way." ■

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Women In Business

Ideas, insights, and information to help women compete and succeed in the marketplace.

By Sharon Nelton

PARTNERSHIPS

Don't Let "Equality" Bog You Down

One advantage of having a business partner, says Kathleen Wiseman, is that two or more people can move an idea forward more quickly. In addition, she says, the different life experiences and skills that partners bring to an enterprise "add richness to a firm."

But Wiseman believes that "a compa-

plains. Partners who get "locked into this equality business," she warns, get bogged down by spending too much time trying to build consensus.

Women partners in some businesses maintain that the equality of their relationship—that they all be equal and have an equal say in everything—is

wants from it. Then you will see the inequalities and can determine what tradeoffs you want to make. The partner who wants to work less, for example, may settle for less financial reward.

● Recognize, however, that if you and your partners choose, you can still have an equal division of financial interest in the company. "I've seen companies where somebody has taken the major leadership responsibility but insisted that everybody share equally in the profits and in the salaries," says Wiseman.

● Consider switching leadership at different times or over different issues. When one woman in charge of a company took time off to have a baby, for example, someone else in the firm took the leadership responsibility.

Striving too hard for equality can keep partners in what Wiseman calls a "no-action mode." Leadership is the key, she says. "In my opinion, that's not a consensus game." ■

CORPORATIONS

Women's Groups

Company leaders are turning more and more to corporate women's groups for help in attracting and developing female employees, according to Catalyst, a national research and advisory organization. Such groups typically are formed within corporations to promote the professional growth of women employees and address women's issues in the context of the company's goals. The groups are called by such names as the Women's Action Team, at Polaroid Corp., and the Women's Advisory Council, at Tenneco Inc.

Catalyst offers two resources for helping women's groups:

● *Building an Effective Corporate Women's Group*, a publication that provides guidelines for developing a group and working with management. To order, call Sabrina Gordon, referral coordinator at Catalyst, at (212) 777-8900.

● Advisers to help groups shape their missions and increase their usefulness to a firm. For information, call Cecelia Manley, senior associate, advisory services, at the same number. ■



PHOTO: T. MICHAEL REEA

Kathleen Wiseman: "A company, in order to flourish, needs one leader."

ny, in order to flourish, needs one leader."

Partnerships, she says, particularly those owned by women, get "snarled up" by the notion that everyone is equal. "I have seen a number of women's firms where there are three or four partners, and they can't get off the dime because they keep working for consensus," says Wiseman, who owns Working Systems, an organization-development consulting business in Washington, D.C. "They keep thinking everybody is equal, that they all bring equal skills, and they can run things equally. That's not true."

Business owners will find there's a "tension" between needing one leader and managing a partnership, she says. "It's almost as though one partner has to agree to let there be some leadership by another."

"Women tend to want to treat people right, and 'right' means equal," she ex-

more important than the business.

The notion of equality is a very important value in U.S. culture. But how can you keep your company from being mired in equality? Wiseman suggests the following:

● Be clear about who will lead. Recognize that one person will probably emerge as the leader, and ideally it should be the one who can carry the business vision forward. Avoid falling into the trap of letting the most recalcitrant partner lead by default. The one who is most against innovation and who says "I don't want to do this" can stop a company from moving forward, according to Wiseman. Your partnership is likely to function better when there is a leader who knows how to achieve a balance between building consensus around some issues and leading on others.

● Be clear about what each person brings to a partnership and what each

China



Sino-American Relations

By Zheng Hongye

Chairman, China Chamber of International Commerce

In March 1989, Dr. Richard L. Leshner, president of the U.S. Chamber of Commerce, and his party were invited to visit China. During a meeting between Dr. Leshner and me, we jointly recalled with pleasure the history of rapid development since the establishment of diplomatic relations between China and the United States in January 1979. We also, representing the will of the membership enterprises of each chamber of commerce, fully exchanged opinions on further promoting Sino-American economic and trade relations. The results of this discussion have been unforgettable.

Leaders of the two chambers of commerce agreed that both China and the United States are big countries along the coast of the Pacific Ocean and that economic exchange and cooperation between the two countries as well as among the two and other countries in the Asia-Pacific region are the main incentives for boosting economic prosperity in this region. Hence, this is bound to have great impact on the economic development in the 21st century. Moreover, since China is the biggest developing country while the United States is the largest industrial developed country, the two countries have obvious characteristics of economic mutual supply. All this proves that Sino-American economic and trade relations have broad prospects.

It is just because of these reasons that the U.S. Chamber of Commerce and the China Chamber of International Commerce (CCOIC) have kept a close relationship, and the issues of common concern have been discussed regularly between the two organizations, even during a political turmoil taking place in Beijing between late spring and early summer 1989. In July 1989, an economic information group sent by CCOIC visited the United States and was cordially received by Dr. Leshner. During my visit to the United States in June of that year, I called on the U.S. Chamber of Commerce and talked again with Dr. Leshner about the then-present situation and the development of Sino-American economic and trade relations. Both of the chambers of commerce believed that the dark clouds existing then in the Sino-U.S. relations were temporary and that the arti-



Chamber leaders meet: Dr. Leshner of the U.S., left, and Zheng Hongye of China.

ficially imposed obstacles would eventually fail to impede the relations which had been in a rapid development in the past decade and more. As a matter of fact, the volume of import and export trade between the two countries in 1989 enjoyed an increase of 20 percent over 1988.

The Agreement of Sino-U.S. Trade Relations which became effective in February 1980, especially its articles on granting the most-favored-nation status to each other, has created and will continue to create favorable conditions for trade activities and economic cooperation between the two countries. Both Dr. Leshner and I agreed that the two chambers of commerce would further strengthen cooperation to strive to push forward their economic and trade relations into a multi-level and multi-channel orientation.

The People's Republic of China celebrated its 41st anniversary not long ago, followed by a complete success of the 11th Asian Games held in Beijing. The past 41 years have witnessed a history of triumphant progress made by the People's Republic through steadily surmounting external pressure and overcoming internal interference. To date, the People's Republic has grown up. It has determined the way it should follow from its historical experience and will never drift off from the way due to any pressure. This has been

proved by numerous historical facts. The People's Republic has unswervingly followed an independent peaceful diplomatic policy and opening to the outside world. By abiding by the policy of opening to the outside world, the China Chamber of International Commerce, on behalf of its 8,000 members, would like to cooperate with economic and trade organizations and industrial and commercial figures from all countries and regions, including the United States, to expand bilateral and multilateral economic and trade cooperation and make joint contributions to the world.

Economic Cooperation

China and the United States formally established diplomatic relations in January 1979, the year when China adopted an open policy. Such a favorable situation has spurred the steady development of economic and trade relations between the two countries, indicating an enormous potential for Sino-American cooperation.

The past decade has witnessed a rapid development of the bilateral trade between China and the United States. According to statistics from China's Customs, trade value between China and the United States



China

stood at US\$5.57 billion in 1980. It topped US\$10 billion in 1988 and US\$12.25 billion in 1989. The United States has become China's third-largest trading partner.

In recent years China has remarkably increased the import of staple commodities from the United States. Take the year 1989, for example: China imported from the United States 8.28 million tons of wheat valued at US\$1.2 billion, an increase of more than 33 percent over 1988; US\$570 million worth of airplanes, en-

gines, spare parts, and chartered planes, a 43 percent increase over 1988; and US\$579 million worth of chemical fertilizers, a 16 percent increase over 1988.

Among China's principal exports to the United States, textiles and garments have been decreased while other commodities increased. With the development of China's petroleum industry and an increasing demand from the United States, the export of crude oil and oil products to the United States has increased in particular, up 55 percent and 64 percent, respectively, in 1989 over 1988.

Economic and technological cooperation have been expanded between China

and the United States during the past decade. According to statistics from the Ministry of Foreign Economic Relations and Trade, from 1980 to June 1990, China signed 819 contracts with the United States on technology import with a total contract value of US\$3.259 billion. Since 1984, China has signed a number of contracts on medium-to-large projects, of which many have exceeded US\$100 million. Cooperation between China and the United States is in such fields as light industry, coal industry, power supply, and offshore and terrestrial oil exploration.

American investors are highly enthusiastic in their investment in China. By June 1990, they had invested in 1,096 projects with an aggregated agreement value of US\$4.2 billion, the peak figure among all foreign investors in China. Some American-invested enterprises like the Shanghai Foxboro Co., Ltd. and the Parker-Hubel Seals Co., Ltd. are very successful. At the same time, China has set up some enterprises in the United States with a total investment value of US\$400 million.

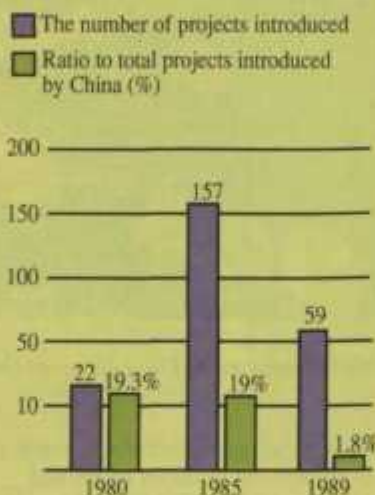
Trade plays an important part in the relationship between China and the United States. Both have their own advantages. They enjoy many fields of cooperation and mutual benefit and a good potential for economic cooperation. At present, there are still some man-made obstacles in economic and trade relations between China and the United States. To solve these problems, efforts must be made by both sides to promote a continuous development of economic and trade relations between the two countries.

—Zeng Boya

Diagram of Sino-U.S. trade value
(from China's Customs)



Technological projects introduced from U.S.A.



Trade Relations

Since 1979, when China adopted an economic reform and open policy, foreign economic and trade activities in the country have entered a new stage. During the past 11 years, while expanding foreign trade and speeding up technology import, China has successfully conducted the introduction of foreign capital, technology export, overseas engineering contracting, labor cooperation, and multilateral and bilateral economic and technological cooperation with foreign countries.

Since 1979, the Chinese government has set up one after another five special economic zones and a dozen economic and technical development areas along the Southeast coastline with special economic policies and managerial systems.

The reform of China's foreign-trade system has been concentrated on decentralizing some managerial power, promoting industry-capital integration, encouraging exports, and improving the macromanagement mechanism. It has also emphasized perfecting its foreign economic legislation

and improved the investment environment.

During the past 11 years, China's foreign economic and trade development can be seen in the following aspects:

Annual trade volume increased, export structures improved, and trade partners diversified. According to statistics, China's total import and export value was US\$169.38 billion during the 29 years from 1950 to 1978. Whereas during the 11 years from 1979 through 1989, the total import and export value was US\$690.86 billion.

With the industrial and agricultural development, China's export ability has been remarkably strengthened. In 1978, China's annual export value was US\$9.745 billion. But in 1989, it reached US\$52.54 billion. Export structure has also expanded from primary products to industrial manufactured goods.

Most of the imports are advanced technology, equipment and raw materials much needed for domestic production, and materials necessary for people's livelihood.

Remarkable progress in absorbing foreign capital. Direct foreign investment and investment from Hongkong, Macao, and Taiwan have continuously increased in the mainland. By the end of August 1990, China had approved 25,880 foreign-funded enterprises and enterprises with Hongkong, Macao, and Taiwan investment, of which 14,492 are Sino-foreign joint ventures, 8,799 are cooperative ventures, and 2,458 are wholly foreign-owned enterprises or enterprises wholly owned by Hongkong, Macao, and Taiwan investors.

Besides, China has also signed 61 contracts with foreign countries on jointly exploring the maritime oil fields. Among these enterprises, the actual foreign investment was US\$17.3 billion.

Technology import speeded up, and technology export started off. China's technology import started in the 1950s and has been rapidly expanding since 1979. By the end of 1989, the central government had invested in 3,858 key projects on technology introduction, with a total contract value of US\$23.37 billion.

In recent years, China also exported technology through various trade channels. By the end of 1989, China had exported 474 items of technology.

Rapid development in overseas engineering contracts, labor cooperation, and overseas investment. China's overseas engineering contracts and labor cooperation began in 1979. In the principle of honoring contracts, quality service, small profits, and good reputation, China has made initial achievement during the past 11 years. From 1979 through 1989, China signed 10,627 contracts on overseas engineering projects and labor cooperation,

with a total contract value of US\$12.8 billion, of which US\$7.77 billion has been committed.

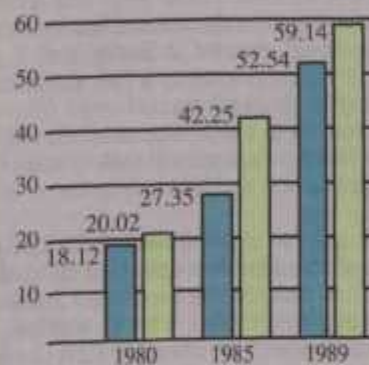
During this period, China also set up 645 nontrade enterprises abroad with a total investment of US\$2.22 billion, of which China accounted for US\$950 million.

Multilateral international economic and technical cooperation. China donates to the relevant United Nations organizations and receives aid from these organizations. Meanwhile, China also receives technical aid from the governments of developed countries.

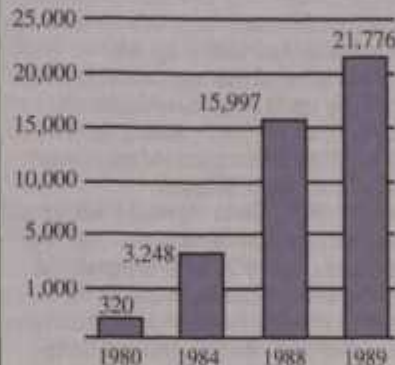
—Zhao Guoxun

Total value of imports & exports
(from China's Customs)

■ Total exports
■ Total imports

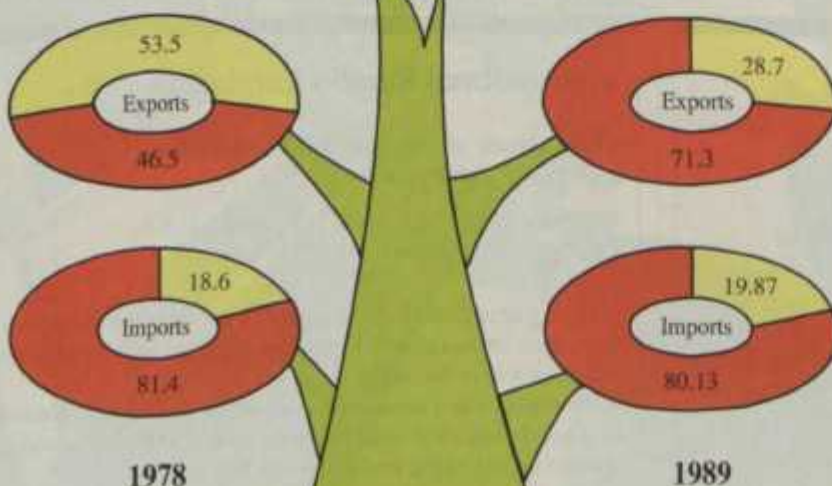


Increase of the number of direct foreign-funded enterprises and enterprises with Hongkong, Macao, and Taiwan investment in the mainland



Imports & exports composition (%)

■ Primary products
■ Industrial manufactured goods



China



Hewlett-Packard In China

With an annual sales volume of US\$12 billion, how could the Hewlett-Packard Co. of the United States succeed in China? Perhaps we could say that the birth of China Hewlett-Packard was the result of China's reform and open policy and a crystallization of the friendship between top leaders of China and the United States.

In 1979, Deng Xiaoping, China's vice premier at the time, met with the visiting Dr. Henry Kissinger. During their discussion, a high-technology cooperation between the two countries was mentioned. Deng hoped that Kissinger could recommend some American entrepreneurs to cooperate with China.

After returning to the United States, Kissinger discussed this with David Packard, deputy secretary of defense, and suggested that he make an investigation in China on the investment conditions. In 1980, Packard and some senior executives from the American Hewlett-Packard Co. came to China. They signed a memorandum of mutual understanding with their Chinese counterpart in the same year.

In November 1981, a technical-service office for HP products was set up in Beijing, and in January 1983 it became the CEIEC-HP branch. In 1984, Chinese and American entrepreneurs formally signed an agreement to set up a joint venture. In June 1985, approved by the Chinese government, the China Hewlett-Packard Co. was set up in Beijing. This was the first high-tech joint venture of electronics between China and the United States. The Chinese investors shared 42.5 percent of the total investment, and the rest was contributed by the American counterpart with an operation period of 10 years.

The Chinese investors, including the China National Electronics Import & Export Corp., Beijing Computer Industrial Corp., and China Computer Development Corp., shared 42.5 percent of the total investment, and the rest was contributed by the American counterpart with an operation period of 10 years.

Based on the principle of equality and mutual benefit, Chinese and American investors formulated the strategy and orientation of this company—introducing advanced products and technology from the American Hewlett-Packard Co. in accordance with the demands of domestic and international markets and technological development, and developing special technology of China Hewlett-Packard.

For Chinese and American investors, the first problem encountered perhaps was not from production but from how to make



China

people of different cultural and social backgrounds work for a common goal. This required a consciousness of equality, mutual benefit, and understanding. Through years of practice, the company finally worked out a managerial system based on a combination of Chinese and Western culture—the China Hewlett-Packard System.

The average age of employees in China Hewlett-Packard is 30, and 84 percent of them have college diplomas. The company always stresses professional training of its employees. During the past five years since it began operation, the employees of this company have increased from 30 to 350. Besides the Beijing-based headquarters, it has set up a branch company in Shanghai and representative offices in Chengdu, Shenyang, Guangzhou, and Hongkong.

At present, major products of China Hewlett-Packard include computers, electronic measuring instruments, chemical analyzing and medical equipment. During the same year of its operation, the company successfully completed a transferred production of HP3000/70 supermini-computer and HP8350B microwave scanning frequency producer. In recent years, it also assembled the HP1651A logical analyzer, HP3394/6 general chromatographic data integrator, HP77020A Doppler color ultrasonic image system, HP54501 digital storage oscilloscope, and HP35660 dynamic signal analyzer.

During this period, engineers from China Hewlett-Packard Co. received professional training in the United States on production technology, management, quality control, installation, and equipment debugging. American Hewlett-Packard Co. also sent professionals to China for on-the-spot



The manufacturing department of China Hewlett-Packard Co. in Beijing.

instruction. Some of the products were sent to the United States for testing, and the result showed that the products were completely up to American standards. These products are now widely used in such fields as electronics industry, machinery, and space industry.

In May 1988, China Hewlett-Packard set up a branch factory in Shenzhen. Its first product was the HP3394/6 integrator, a chemical analyzer brought out by the American Hewlett-Packard at the end of 1987. American Hewlett-Packard transferred the production of this product to Shenzhen and integrated it into its international sales network. From May 1988 to September 1990, the factory produced more than 7,000 such integrators, of which 90 percent were exported.

By the end of 1989, China Hewlett-Packard had produced 12 varieties of HP-transferred products. During the past five

years, its annual sales volume has increased by 20 percent. In September 1990, the company set up a 200-apartment building for its employees.

According to the development plan, China Hewlett-Packard will start independent production and research in the 1990s.

The success of China Hewlett-Packard has reaffirmed the American Hewlett-Packard Co. to make further investment in China. In September 1990, it set up another joint venture with the Shanghai East China Computer Corp.—the Huapu Technology and Information Co. Ltd. in Shanghai. By using advanced technology of American Hewlett-Packard and the technology of Shanghai's computer software, this company will engage in the production of world-class computer worktables and software.

—Hua Xiaoyu

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Travel-Free Commuting

By Michael Alexander

Donna Cunningham, media-relations manager for AT&T Bell Laboratories in Short Hills, N.J., gets up most mornings around 5 o'clock, reads the newspaper over a cup of coffee, and then gets ready to go to work. But instead of stepping out to her car, she walks downstairs to her office on the first floor of her three-story home just outside Burlington, Vt.

Cunningham belongs to the growing legion of telecommuters, people who regularly work in home offices on a corporate payroll. "As far as I know, I have the only office at AT&T with a wood stove," she says with a laugh.

Telecommuting at any distance, let alone from Vermont to New Jersey, would have been difficult, if not impossible, only a few years ago. However, thanks to the advent of low-cost powerful personal computers, voice mail, and

facsimile machines, taking care of business at home is easier than ever before.

Telecommuters, according to the experts, generally are "information workers," those whose jobs call for analysis, research, writing, budgeting, typing, or computer programming, to cite a few examples.

The typical telecommuter works slightly less than two days a week at home, and the experts further say that full-time telecommuting is rare and in most instances is not desirable. They also say top managers seldom can be telecommuters; nor can low-level workers who require a lot of supervision. Many of those who can't take advantage of telecommuting are in service companies, manufacturing, or health care.

So far, telecommuting has been "wonderful," says Bell Labs' Cunningham. She spends much of her time on the telephone, orchestrating conference calls between journalists and scientists at the famed research center and conferring with her co-workers on aspects

Working at home on a company payroll—called telecommuting—grows easier as technology improves.

of corporate media relations. Several times a day, Cunningham writes messages to colleagues using her personal computer and sends them by electronic mail.

"It's not quite the same as going next door, leaning against the door jamb, and having a face-to-face conversation," Cunningham admits. But she is as productive from her home office in Vermont as she could be in the company's home office in New Jersey, she says.

"Enlightened management" put her on the road to telecommuting and helped make it succeed, Cunningham says. She began telecommuting in July 1989 after she married and told her supervisor that she planned to resign and move to Vermont with her husband. Her supervisor suggested that Cunningham take her job with her.

However, such managers are relatively rare. Telecommuting "doesn't fly" with most managers because they are reluctant to allow their employees to work without close supervision, says

Michael Alexander is a senior editor for Computerworld magazine, in Framingham, Mass., and home-technology columnist for The Boston Globe.

Telecommuting from Vermont. Donna Cunningham of AT&T's Bell Labs confers with colleagues in New Jersey.



PHOTO: T. MICHAEL KEEN

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SMALL-BUSINESS COMPUTING

Carol D'Agostino, senior research associate and newsletter editor for the Home Office Research Group of Link Resources in New York City. D'Agostino has been telecommuting from her home in Valley Stream, Long Island, to Link, based in Manhattan, for more than six years.

Managers who do have employees who telecommute, however, generally say that employers have more to gain than lose. At least a portion of the time that telecommuters save by not commuting is often devoted to their work. "Telecommuters are more productive; they work seven days a week, not 9 to

The firm's telecommuters, most of them in sales and service, use voice-mail technology to conduct weekly meetings and discuss sales activities. Monitoring each employee's contribution is easier than ever because each employee spells out precisely what projects he or she is working on or plans to complete that week, Reece says.

Electronic mail and other ways of communicating through the use of personal computers also help Reece keep an eye on the business without changing the essentials of his management style.

"I do a lot of management by wan-

when we didn't have a weekly meeting for three weeks," McElroy says. "She became isolated and left. That made me very aware of keeping in touch, so now I call people and meet for lunch. I call everybody every day, some people many times."

McElroy and his employees also use a program called Timbuktu, by Farrallon Computing Inc. It allows him to telephone an employee and electronically look over the employee's shoulder to see what is on the computer screen. This way, McElroy and the employee can work on a computer-based training program simultaneously even though



PHOTO: T. MICHAEL REECE



In touch from home: Carousel Mediaworks' art director David Michalowski, President Denny McElroy, writer Sheryl Hunt.

5, hoping they can sneak out early on Friday," says Franklin Reece, III, president of USTeleCenters, a Boston-based distributor of telecommunications equipment.

USTeleCenters has about 100 employees, and most telecommute two days or more each week. Telecommuting allows employees to better juggle the demands of both office and family life, Reece says, and that helps businesses that want to attract stable employees. "I think that a business that wants to be competitive in the 1990s will have to have an environment that supports family values," he says.

Few companies would encourage telecommuting if there were no sound business reasons for doing so. For example, telecommuting has given USTeleCenters a competitive advantage by enabling it to become the only telecommunications-equipment company remaining in downtown Boston. Because the downtown area's legendary traffic jams are expected to grow even worse during a forthcoming major construction project, many companies are fleeing the area. USTeleCenters has decided to stay, however, because telecommuting insulates many of its employees from traffic problems.

dering around," Reece says. "I just do it by wandering through remote telecommunications. I think that I am still a pat-on-the-back coach."

When Denny McElroy, president of Carousel Mediaworks in Honeoye, N.Y., set out to launch a company to produce computer-based training programs about a year ago, he did not have telecommuters in his business plan. But business took off immediately, and the frantic rush to meet deadlines did not allow McElroy time to set up an office. Before he knew it, all five of his employees became telecommuters.

"Everyone likes it," McElroy says. "Early on I kept asking if we needed to get an office because I wanted to make sure everyone was happy."

The employees and McElroy keep in touch via an electronic mail center, a computerized version of a bulletin board, and by telephone and staff meetings held once a week as well as whenever needed to discuss new projects.

Not everyone finds telecommuting comfortable. "I lost one employee because she needed the face-to-face time, and we were going through a period

they are miles apart.

"I can count on my folks to give me at least 40 hours a week—maybe not 9 to 5, but I don't try to enforce that," McElroy says. "It has been suggested that they call me or I should call and check on them every day, but I don't need that. I can judge at the end of the week how much work they are doing."

Although it is catching on in some companies and among some managers, telecommuting has not grown as fast as some futurists such as Alvin Toffler, author of *The Third Wave*, had predicted. Toffler envisioned computer and telecommunications technologies that would enable millions of Americans to live and work in "electronic cottages," telecommuting to their offices instead of streaming into cities in massive platoons.

The experts calculate that fewer than 500 companies have formally established telecommuting programs for their employees. Those that have include Levi Strauss & Co., Pacific Bell, AT&T, IBM, Johnson & Johnson, American Express, J.C. Penney, and Blue Cross and Blue Shield.

The movement will grow significantly in the 1990s, says Gil Gordon, president of Gil Gordon Associates. His

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firm, based in Monmouth Junction, N.J., offers telecommuting consulting services and publishes *Telecommuting Review*, a newsletter.

Gordon and other experts say that telecommuting will be fueled by several factors:

Traffic congestion in urban areas has made travel to and from work time-consuming and stressful for most commuters. In addition, concerns about air quality have prompted many states and the federal government to seek more-flexible working options in order to reduce air pollutants from motor vehicles.

High real-estate costs have affected employers and employees alike. Big-city office space and parking facilities are becoming too costly for some companies, and many workers cannot afford to live within a reasonable commuting distance of downtown business centers.

The thinning of the ranks of entry-level workers following the population bulge of the baby-boom generation is making it harder for employers to attract and retain good employees. Also, many younger workers want to spend more time with their families and less time climbing corporate ladders.

Technology that enables workers to telecommute has become inexpensive, widely available, and easy to use. The facsimile machine and the personal computer with a modem—which links the PC to telephone lines—for shuttling work to and from the office have become crucial for most offices at home.

Working mothers of young children see telecommuting as one way to have it all, and companies are more willing to be flexible about working hours in order to accommodate them. In fact, women may be most responsible for driving telecommuting home. Several studies suggest that the majority of telecommuters and home-based business operators are women.

Link, the New York-based market-research firm, calculates that 26.8 million Americans—about 20 percent of the labor force—work at least part time at home. About 3 million are telecommuters who regularly work at home for their employers, the firm says.

A survey conducted by JALA Associates, a Bel Air, Calif., firm that counsels corporations interested in telecommuting, indicates that about half of the work force could work at home or in a regional office; 20 to 30 percent could work part time at home; and 20 to 30 percent have jobs that require that they be in a particular place and thus would not be able to telecommute.

One of those whose work did go home with her is computer programmer Sherry Yeaton. When she decided in 1987 to have a child, she asked her em-

ployer, a small life insurance company in Concord, N.H., to let her telecommute after the baby was born.

"No company wants to train someone like me (a COBOL-language programmer) and then lose them, so they agreed," Yeaton explains. "It started gradually, with my bringing more and more work home." Now, Yeaton telecommutes an average of 12 to 15 hours per week.

She uses her own personal computer as a terminal to log into the company's mainframe computer when she programs. The company supplied a modem and telecommunications software. The

performed, how the work will be evaluated, and other aspects of the job.

Most jobs still require face-to-face meetings or "time around the water cooler," says James Barry, vice president and publisher of International Custom Publishing, in Peterboro, N.H. "You need to be able to interact with people and toss ideas back and forth, especially if you do creative work," he says.

When the magazine-publishing company recruited Barry to head its custom magazine division earlier this year, he wanted the job. What he didn't want, however, was to pick up stakes and



PHOTO: T. MICHAEL KEZA

Telecommuters together: Mediaworks' Michalowski, left, McElroy, and Hunt.

computer runs at all times, so she can work whenever she likes. Often, that is at night and on Saturdays, she says.

Even some employees whose jobs might be accomplished through telecommuting may be unsuited themselves for such a working arrangement, however. Telecommuting requires discipline and self-motivation. It also helps to have a well-furnished home office or a dedicated area conducive to work.

Telecommuting is solitary work, and not every employee can cope with the sense of isolation. Some telecommuters work too much; they become unable to walk away from the home office in the evenings and on weekends, which eventually can lead to burnout.

In addition, employees are apt to feel that if they spend too much time out of the office, it hinders career advancement or causes resentment among fellow employees who might feel that telecommuters are not carrying their share of the load.

Experts in the field suggest that a manager and candidate for telecommuting work out a comprehensive agreement that details how often the employee will work at home, what will be

move north or make the grueling 57-mile trek over country roads twice a day to and from his home in Framingham, Mass. The solution? Barry telecommutes about two days a week.

"My job doesn't require me to be in the office all of the time," says Barry, who travels frequently to meet with prospective clients. "I have a small staff—everyone has a clear job and is not supervised closely. Much of what I do is writing and selling on the phone and in person."

When traveling or telecommuting, he communicates with his staff by fax machine and by a laptop computer with a built-in modem to transmit electronic mail. "What difference is it if I am sitting in my office and my secretary is next door or in Peterboro?" Barry says. "Why do I need to drive that far when I can save that time and be closer to [Boston's Logan] airport for country-wide travel?"

One unexpected bonus of not spending all of his time in the office is that he is able to judge the work of his staff more objectively, Barry says. "The arrangement puts a premium on clarity of purpose and direction. You're judging people on whether they got the job done and the quality of their work." ■

LESSONS OF LEADERSHIP

The Two Musketeers Take On The PC World

By Ripley Hotch

It's 10th anniversary celebration in July confirmed the rise of AST Research, Inc. In that decade, the Irvine, Calif., personal-computer manufacturer grew to more than \$500 million in sales. It moved into a brand-new sprawling headquarters, and it planned to announce new products at aggressive prices.

The company's co-chairmen, Safi Qureshey and Tom Yuen, talk confidently about being the third-largest supplier of personal computers and workstations to America's big businesses.

They are pushing AST vigorously into the world market and have begun distribution in Japan of a clone of the leading Japanese PC, made by NEC. And, in a demonstration of AST's technical and marketing expertise, its DualStation computer will also run the standard IBM-compatible American system.

But this vigorous, expansive company slipped badly in late 1988 and early 1989. It lost money, had to restructure, and laid off 6 percent of its work force. AST suffered a plunge in its stock value and the resignation of its third founder, Albert Wong.

Yuen and Qureshey still wince when they talk about that painful time. "That fiscal year was a very traumatic year for AST," says Yuen. "I don't think we need to beat around the bush. We moved too rapidly; we got complacent. We were not paying attention to internal basics. Margins were eroding, inventories were piling up, products were not meeting market expectations. We took a good look at ourselves: What do we need to do to be a player? We have to be tight, stop the bleeding, take some drastic cuts, get out new products."

AST's tough decisions paid off. In its 10-year history, the company has been both innovative and daring; in the past two years it has also been soundly managed, and its stock reached a recent high of 26 1/8 in July (after dropping to 6 5/8 during the money-losing previous



PHOTO: ©JIM MENDENHALL

AST Co-chairmen Safi Qureshey and Thomas Yuen in the firm's testing room with the latest-generation tower personal computer.

year). And its first-quarter earnings for fiscal 1991 were a record.

The company has also managed to retain its culture: fresh, innovative, high-tech, and surprisingly informal. First names are used throughout the company—not only in its brand-new Irvine headquarters and manufacturing plant but also in its 32 facilities worldwide. The founders' parking spaces are labeled "Tom" and "Safi."

The name AST is formed from the initials of the first names of the three founders, who met when they were working for different minicomputer

firms in southern California. Wong and Yuen came from Hong Kong, Qureshey from Pakistan. All were engineers, and their original purpose was to do high-tech consulting—hence the name AST Research. They pooled \$12,000 in cash—mortgaging their homes for much of it—and \$28,000 in equipment, and they started operations in July 1980. They worked so closely together that they came to be called "the three musketeers."

Their big break came when IBM introduced its personal computer in 1981. The PC brought standards to the fragmented microcomputer industry, and the standards were "open"—other companies could develop products to fit into the machines. AST was among the first on the market with an add-in board that increased the PC's memory.

In the years that followed, AST came out with a series of boards that increased the speed and functions of IBM and IBM-compatible PCs. It gained a reputation for complete compatibility and reliability, and for technologically superior products.

At the same time, the market was maturing, and AST was faced with a major decision. PC systems contained more memory and power; newer ones were less likely to need AST's memory-expansion boards, even though they were (and remain) the most popular on the market. Qureshey, Wong, and Yuen decided to go into PC manufacturing.

"History told AST that we would never make it as a PC company," says Yuen. "People would ask constantly, 'Do you know what you're getting into?'"

AST was late into the PC business; the IBM PC-AT had been introduced. It looked as though the opposition was right. But Yuen and Qureshey insist that being late into the market allowed them to do the kind of customer research that made their first PC a hit.

The move into systems manufactur-

One major slip taught the ninth-biggest PC manufacturer that high technology is no substitute for constant attention to business basics.

ing brought out the main characteristics that AST now considers essential to its success and survival: flexibility, quality, technological innovation, and lean operations.

"We did the impossible," says Yuen. "We switched our business from 80 percent board level to 90 percent systems in one year. It took determination, patience, and total commitment to flexibility. The day we lose our flexibility, the day we grow complacent with our margins, we will be one of the dinosaurs."

AST's Premium and Bravo PCs quickly pushed the company into the top 10 computer manufacturers. But like many other companies riding high, it fell into the trap that Yuen recognizes in retrospect, and it nearly became the dinosaur.

As a result of that brush with disaster, Qureshey says, "I believe we have become a much better run company."

Running better means a lot of things to Qureshey and Yuen. One is how to situate the company within its industry and in the world market.

The computer industry is driven by technology and price. The way in which those two elements fit together sets AST apart from other manufacturers. "In some areas we take a very contrarian view," says Qureshey. "In most industries, you charge a premium for something new, recovering R&D investment up front. But for us to continue to make an impact and keep our own organization lean and responsive, we have the right pricing up front, rather than build fat in."

AST plans a series of product innovations beginning this month to demonstrate its ability to come up with impressive technology at low prices: a notebook computer, a new low-cost system based on the 80486 microprocessor, and multiprocessor machines that will do the jobs of minicomputers, which Yuen calls dinosaurs and Qureshey says are the "railroads of the computer industry."



PHOTOS: (LAW) WENDENHALL

AST's flexible manufacturing plant, top photo. Robots assist workers with product assembly, center. Bottom: The smaller board is more powerful.

The new 486 computer, for example, has a list price of \$3,995 for the basic model, an astonishingly low price from a quality manufacturer whose competitors charge up to three times as much. AST achieves that price/performance combination by using its advanced technology. It designs its own boards and chip sets that allow buyers to upgrade machines to more powerful microprocessors by replacing one component. It has reduced as many as 20 chips to one in its "very large scale integrated chips," which reduce the size and production cost of machines. And with the

pricing strategy that spreads the cost of this R&D over the life of the product, the machine will be instantly (or so Qureshey and Yuen hope) a price, technology, and value leader.

"They lead a lot," says Michael Heylin, an analyst with Creative Strategies Research, a marketing-research and business-strategies organization in Santa Clara, Calif. "They don't follow anybody else's idea. They invented a lot of technology with their replaceable processors and the single chips they design. They are good at marketing and distribution, and have grown well."

The corporate match to AST technology is its drive to keep reasonable margins. Margins of 60 percent, once common in the industry, have to give way to less neck-craning levels, says Yuen; he puts AST's margins at about 33 percent.

"The only way you can achieve good profitability and still give good value is improving costs," Yuen says. "We can do the job better, build it cheaper and more efficiently, or we can design it with fewer parts. Reducing 20 chips to one reduces the manufacturing costs by an order of magnitude. That is the only way we can do it."

Both Yuen and Qureshey think that the dramatic combination of increasing power and decreasing cost in the PC industry has a long way to go, and they intend to be a major influence for continuing to push costs down. "By doing this, we know we are also lowering the umbrella on competitors," Yuen says.

After Wong left, Yuen and Qureshey redefined their own roles as founders and co-chairmen. Qureshey is president and CEO, the chief spokesman and long-distance planner. Yuen is chief operating officer, the one who gets the immediate job done.

"Tom focuses in on how we get the things done, the clear, sharp, immediate decisions, that are up to six months ahead," says Qureshey. "I spend more time looking at longer-term issues, product strategy, what should we be

LESSONS OF LEADERSHIP

doing now that will impact the company longer from now."

Qureshey sees great opportunities for AST both in the international marketplace and among smaller businesses. The company has made itself a strong No. 3 among big businesses but is hardly a presence at all among smaller ones, according to a recent survey of *Nation's Business* readers.

"We do well with the Fortune 500 companies, but we are developing the machines now for what I call the 'Fortune 5 Million'—the smaller companies," says Qureshey. "These companies are successful despite the computer. They have been skeptical of salesmen selling a product that is expensive and may not work. Some successful companies have been ruined by the wrong system that never worked."

Qureshey, who says he understands the skepticism because he thinks of himself as a "typical small/midsized-business person," proposes to market to smaller companies through other smaller companies. "There is a great deal of skepticism in these small companies about automation from big companies. We feel we are closer to them and understand them better. What we want to do is package computers as another

tool, to be sold by other small businesses that a small company can relate to."

AST sells through value-added dealers and resellers, stores, and "grass-roots" resellers. It is also adding service numbers typically associated with mail-order clone manufacturers.

About 38 percent of AST's sales are made in other countries now; Qureshey and Yuen are trying to raise that to 50 percent in the next few years, to insulate the company from swings in the U.S. economy. This international strategy has some surprising angles. AST is the top-selling PC in China and is very strong in many other markets.

Its attempt to clone the NEC in Japan has generated support from Secretary of Commerce Robert Mosbacher and has raised eyebrows elsewhere. Audacious, indeed, to create a clone in the land of the clone-builders. "Japan is an important market, and we do not want to give up easily," Qureshey says.

AST has also pressed into other Pacific Rim countries, Pakistan, Eastern Europe, Latin America, Africa, and Russia. It anticipates even more business. "Our market share in Europe is peanuts—maybe 1 percent," says Yuen. "But that doesn't concern us because that means we can grow 99 times

bigger, if we are lucky. When we are small in a market, that means we haven't really tried yet."

Neither underestimates the risks. As with any small business in this country, Qureshey says, "you are under attack in your own market by aggressive companies that have studied our market for years. So we have to learn to compete with them at home and on their own ground." Eventually, he says, despite the unfairness of much international competition, "if we can learn to compete in today's market with its inequities, whenever the fairness comes through bilateral agreements, that experience would be beneficial."

He also sees advantages for business people in being Americans: "We don't have the colonial background of most other countries against us. We as a nation stand for human rights and fairness; we have a better track record than most other countries."

Qureshey thinks that the background of the founders as immigrants and engineers has helped the company expand and run better in its industry. "We find it easier to accept the idea of international business and the different environments we have to compete in. I guess being immigrants has been a plus for us. We had to learn and listen and adapt if we wanted to be long-term international players."

In management style, both Yuen and Qureshey think that openness is essential. They walk through the facilities, share financial information with employees, and give concrete incentives. It is part of the effort, Yuen says, to "give something solid like profit sharing. Not just a pat on the shoulder."

"Our company is product-driven," says Qureshey, "and an engineer in the senior position makes more clear decisions as opposed to somebody with a different background."

AST's hard time in 1988-89 forced the company back to its roots as a fast-acting, technologically oriented competitor. Change is now the way the company operates, says Qureshey:

"We want to survive the test of time. As founders, we are trying to lead, guide, help, structure in a way that the company can move forward. Tomorrow will be different from today. We have seen leading companies disappear, and we have enough scars and experience of the critical factors that we are trying to build a company that can deal with change—not just markets but management."

Qureshey and Yuen are only 39; that they can look ahead when they will not be at the company means they are planning for a long run for AST.

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The New Tax Law's Impact

By Mary McElveen

The recently enacted tax package is better than the rejected summit agreement, but its overall impact could slow the economy.

Twenty-two days in October proved significant to the finances of many U.S. businesses.

Between Oct. 5, when the House rejected the summit agreement reached by White House and congressional negotiators, and Oct. 27, when Congress finally passed a budget bill for fiscal 1991, business won the addition, improvement, or modification of several tax provisions.

The end product is mixed.

The U.S. Chamber of Commerce represented the basic business position, both in its strong opposition to the summit package and the final bill and in its strategy of fighting to minimize the damage and, where possible, make gains.

"In general, the final bill is significantly better for business than the summit agreement," says David Burton, the U.S. Chamber's tax-policy manager. "The changes we won between the two versions of the budget package were high business priorities."

"But the bottom line is that neither the summit agreement nor the final budget bill is good for the economy. Both contain tax hikes between \$130 billion and \$140 billion over five years, and virtually all economists agree that tax hikes, particularly of this magnitude, will place a tremendous burden on a slowing economy."

Burton notes that the Chamber's leadership role in opposing the initial budget proposal was critical: "Had we not opposed the summit package, we would have ended up with virtually no positive provisions for business."

Among the most important improvements in the measure—which President Bush signed into law Nov. 5—are:

- Restoration of the estate-freeze method for transferring a family business from one generation to the next. A 1987 law disallowing that procedure had made family-firm transfers prohibitive in many cases.
- Reduction of the motor-fuels tax increase to 5 cents per gallon from the 12 cents in the original plan.
- Addition of a \$5,000 tax credit for small businesses for making facilities accessible to the disabled.
- A reduction from 33 to 28 percent in the marginal capital-gains tax rate paid by individuals.

- Extension of several expiring tax benefits, including the 25 percent deduction for health-care expenses of unincorporated firms and the self-employed; the 20 percent credit for research and experimentation; the favorable research-expense allocation rules; the exclusion allowed for employer-provided educational assistance; and the credit allowed for the hiring of disadvantaged individuals, commonly

ber of family-owned companies.

Testifying for the Chamber at a congressional hearing, Roy Hunt, president of Hunt Tractor, in Louisville, Ky., told legislators that "tax laws should help preserve family businesses and farms, not encourage their sale and breakup," as Section 2036(c) did.

The new law replaces Section 2036(c) with a narrow gift-tax valuation provision.



PHOTO: J. MICHAEL KEZA

Tax laws should help preserve family businesses and farms.

—Roy Hunt, Louisville, Ky.

called the targeted-jobs tax credit.

Only the extension of the research and experimentation credit was in the budget-summit agreement.

For many companies, a major advantage of the final bill over the summit agreement is a provision related to tax underpayments. The summit agreement would have disallowed corporate deductions for interest paid on tax underpayments. The new law continues the deduction but adds 2 percentage points to the interest rate businesses must pay on tax underpayments over \$100,000 after notice by the Internal Revenue Service.

The most important provision for family-owned firms is the repeal of the tax code's Section 2036(c), which eliminated from tax options the estate-freeze method of transferring a business to the next generation.

The freeze approach and similar methods will again be allowed as a result of the repeal, which was a top 1990 priority of the U.S. Chamber.

"It's a godsend," says Donald R. Hull, a licensed public accountant in Westminster, Md., who advises a num-

"The bottom line," says John Carson, a tax attorney for the Chamber, "is that family-firm owners will be subject to somewhat higher valuations of their transferred stock for gift-tax purposes as the result of the new gift-tax provision. But they will no longer have to worry about the value of the company's future growth being pulled back into the estate for tax purposes when they die."

Richard L. Dees, who specializes in estate and business planning with McDermott, Will & Emery, in Chicago, notes that Section 2036(c) treated transactions between family members more onerously than it did those between a family member and an unrelated individual.

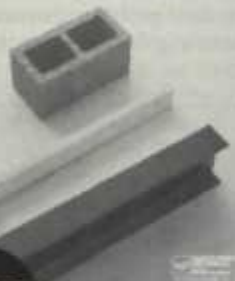
The new gift-tax provision is "totally different," he says. "Its sole purpose addresses whether the value of the preferred stock transferred from one generation to the next is fair."

On the down side, the final budget bill will affect companies adversely in a number of ways. Many of the smaller businesses that pay taxes at individual rates—the sole proprietorships, partnerships, and Subchapter S corpora-

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TAXES

tions, which include the majority of small firms—face higher income-tax rates beginning Jan. 1 as a result of:

- The creation of a new 31 percent tax bracket. With the new bracket, some small businesses that pay taxes at individual rates will pay at the 31 percent rate rather than at 28 percent on a portion of their income.

(At the same time, others will see a rate cut from 33 percent to 31 percent on a portion of their income.)

- Disallowance of \$300 in itemized deductions for every \$10,000 in adjusted gross income over \$100,000.

- The phase-out of personal exemptions for taxable income above \$100,000 for those filing singly and \$150,000 for couples filing jointly.

- An increase in the alternative minimum tax (AMT) for those who pay at individual rates from 21 percent to 24 percent. The AMT is a separate tax calculation required in addition to a firm's regular income-tax calculation. A firm must pay the higher of the two calculations.

"The income-tax rate is going up for most of our clients," says Albert B. Ellentuck, senior tax partner with Laventhol & Horwath and author of *The Small Business Tax Planning Guide*.

Thomas P. Brock, president of the accounting firm of Brock, Buchholz & Stow, in Longmont, Colo., says many of his smaller clients will be affected by the rate changes. He says those changes are more significant than they may appear. In effect, the denial of the deductions adds 1 percentage point to the top tax rate, he says, and the tax rate is raised by a half percentage point for each exemption lost.

Accountant Hull in Maryland says that because most of his small-business clients are operating with very small profit margins, they generally don't have taxable income in the ranges that will be affected by the rate changes.

According to Hull, whose firm advises about 300 clients a month, his clients' greatest concern is the increase in the federal gas tax from 9 cents to 14 cents per gallon. "For many small businesses operating on the margin, this increase will add substantially to their cost of doing business."

David A. Raine, owner of a heating, air conditioning, and plumbing firm, Raine & Son, in Hyattsville, Md., says the gas-tax hike, which takes effect Dec. 1, would be particularly damaging to his firm and other companies that depend on transportation. The increase

in fuel costs resulting from the Persian Gulf crisis has already increased his fuel costs by 30 percent.

Because his firm services the real-estate industry, which is suffering as a result of the economic slowdown, Raine cannot easily pass on the increased fuel costs to his customers, he says. "They simply don't have the cash now, and they are shopping for the best price for products and services more than ever before. One customer told me, 'We are looking at price and price only.'"

Kenneth Simonson, vice president and chief economist with the American Trucking Associations, in Alexandria,

Va., says: "Sooner or later the trucking industry will have to pass on the increase. The industry had a profit margin last year of only 1.85 percent. There really isn't room to absorb the higher fuel cost."

Business owners who pay themselves or any employee more than \$51,300 will feel a greater tax bite as a result of a payroll tax hike. The budget measure raises the wages subject to the 2.9 percent Medicare payroll tax from

\$51,300 to \$125,000. For every employee, the tax is divided in half, with the employer and the employee each taxed at 1.45 percent on the employee's wages.

The self-employed, who pay both the employee and employer portions, will be hardest hit. For example, a self-employed individual who pays himself \$125,000 annually would pay an additional \$2,137 in taxes next year simply as a result of the payroll-tax increase.

According to the Chamber's Burton, the Medicare tax hike is likely a precursor to congressional attempts next year to raise the wage base subject to Social Security payroll taxes.

Beginning Dec. 1, firms whose employees travel will pay higher taxes on airline tickets. The ticket tax will rise to 10 percent from 8 percent.

Other businesses likely to feel the pinch are those that manufacture or sell the items on which tax hikes are being imposed—gasoline, cigarettes, and alcoholic beverages, as well as furs, boats, and planes costing above a certain amount.

While the Chamber's Burton says it is difficult to generalize about the effect of the bill on specific businesses "because of all the variables in tax calculations, clearly, the cost of doing business will rise for many companies." ■

**For many small
firms, the gas-tax
increase will add
substantially to their
costs.**

—Donald Hull,
Accountant

The Basque Country



Human beings have hardly ever undertaken such an attractive and difficult project as the European Agreement. When Europe was destroyed and in want of a collective illusion in order to unite different peoples, economies, and citizens and get them together into a new single common project, illustrious men and women came up and gave birth to a dream which invited us to move in the same direction. Such dream was the creation of a single space which should overcome all differences and create a new economical, social, and political order based on equity and solidarity.

This is the reason why the United States of Europe, the Single Market, and the unattainable utopia started for the new democratic people, by means of convincing dialogue, never trying to impose their ideas. The Economic Agreement was first; then a minimum market, which has been continuously expanded. Today, there is a

new compromise, however: The single European Act.

The challenging Single Act was agreed upon, and it was the purpose of every state member to fulfill their principles before Jan. 1, 1993, for the benefit of every state, but unknowing the actual dimension. Nevertheless, at this moment and after hearing the report of the European Commission on the expense that giving up this idea would entail, the original idea appears well conceived.

In this context, Euskadi is aware of the uneven distribution of benefits in the would-be Europe between most- and less-favored regions and is confident about the solidarity that economic and social cohesion entails. Thus, Euskadi is hopefully doing her best to face the present challenge, which is to build a new Europe.

Such a project requires a positive, determined, and coordinated action: the Euskadi in 1993 Europe Plan. It is an inter-institution and inter-department plan, based on overcoming obstacles and allowing an even economic development to remove every inequality.

In short, there is a bet behind a date: 1993.

I hope that you will take time to read the following brief overview of the 1993 Europe Plan and Euskadi.

*José Antonio Ardanza Garro
Basque Government President*

On Jan. 1, 1993, the Single Act will come into force, and as a consequence of this, Europe will take the last and final step toward the creation of a common market throughout which people, goods, services, and capital will flow freely and without any borders. Thus, a wide space will be formed in which states, regions, and individuals will have a better chance to develop socially and economically.

But all this requires, at the same time, a substantial effort directed toward adapting structures and mentality in order to get competence, and harmoniously be a part of the great project of European unity.

It is evident that during this process, public officials have the duty to carry out the necessary projects in order to provide for citizens and companies a suitable way to approach the single European space which is being created.

It is also evident that the Basque Country, together with the other European regions, is actively taking part in the process of building a new Europe, based on respecting and supporting the varied personalities and idiosyncrasies of the peoples belonging to it.

The regions, through their socio-economic and cultural exchange and cooperative initiatives, are developing an essential role complementary to that of the states toward a whole European integration, as proved by the European Community struc-

tures themselves. The Europe of regions and citizens is also on the move.

Both the Basque Government and the County Council Authorities have raised the issue at stake and have seen the need to develop and perform a Special Plan to prepare and adapt Euskadi to the conditions arising in 1993, and to provide an important amount of financial resources for it.

EUROPE '93 arose when the President of the Basque Government committed himself to fulfill the program before the Parliament, during a policy debate held on Sept. 30, 1988.

EUROPE '93 is an inter-institutional program which will take four years (1989-1992) and in which both the Basque Government and the County Councils of the three historical territories will take part. Thus, it is a plan concerning everyone and to which everybody will contribute with work and resources.

Due to the characteristics and magni-

tude of some of the projects to be carried out, the help of the state's Central Administration will be necessary through special agreements between the former and the Basque Government.

This Special Plan is directed to strengthen and complete other plans of the Basque Government and will create a clearly defined framework with an underlying structure allowing a European relation-



PHOTO: © TOURIST OFFICE OF SAN

THE BASQUE COUNTRY



ship toward creating policies based on social cohesion and solidarity.

The General Secretary for the EUROPE '93 Plan depends on the Presidency Secretary of the Basque Government, and it is committed to coordinate the performances of the different institutions taking part in the Plan.

With this Special Plan, the Basque Government has a strategic means of fulfilling two major objectives before 1993,

Autonomous Community's future economic development. In this sense, it is necessary to strengthen and encourage the strategic condition enjoyed by the Basque Country as a link between Europe and the Spanish state, the Cantabrian cornice and Portugal.

Achievement of a greater cohesion and social solidarity. Inequality and social margination are not situations morally compatible with economic development, and besides, they cause a disintegrating effect on the social group in which they are produced.

The continuous economical growth intended to achieve during the following years and the benefits expected to be obtained from the single European market cannot merely affect some social groups, to the detriment of the less-favored ones.

Thus, the Basque Government undertakes to achieve a fairer redistribution of wealth and equal opportunities for everyone, that is to say, a greater integration and social cohesion.

In short, EUROPE '93 intends to draw the way that Basque society will have to follow, with the best economic and social welfare conditions, in order to have a place within this new horizon beyond the states called the European unity.

The magnitude of EUROPE '93 is evident from the following brief look at the changes planned for one of many infrastructure elements—telecommunications.

The structures underlying telecommunications

are essential to make possible that Euskadi adapts well to the new situations prevailing until the last decade of the 20th century.

Therefore, EUROPE '93 includes a specific and intensive treatment of this issue in the development, which had already begun in 1984 with the creation of the Official Communications Network of the Basque Government. The above-mentioned network lies on several basic foundations:

The broadcasting hertzian network. The present state of this signal and broadcast transporting network, which does not require intermediate physical support, is precarious and of a still-limited capacity.

This condition can be clearly proved by observing some shade zones on Basque television and on some medium wave and frequency modulation radio programs.

EUROPE '93 will attain the following projects:

- Investments in maintenance and

management of the broadcasting network.

- Building new premises to cover the Basque television adequately.
- Setting up a third FM program in Radio Euskadi.
- Raising the power for MW in Radio Euskadi.
- Raising the networks' capacity to deliver service for an increasing number of users, no matter whether public (RTVE, Councils, etc.) or private (radio and television concessionaires, etc.).
- Transmission of two television programs via communications satellite.

Radiotelephony mobile network. The creation of a mobile radiotelephony network common to a great deal of users will be most important for industrial and service activities.

The difficulty of using this means of communication individually requires the installation of a network enormously improving resources and application of modern technology with dynamic channel assignment and digital control.

The EUROPE '93 programs in this area intend to develop services such as beepers, automatic finding of vehicles, etc.

Physical network of value-added services. EUROPE '93 expects an intensive action in this field, which will entail a quality rise in Euskadi's communication capacity. The aim is to build a broad band-block network and provide access to it from towns and villages, beginning with the most important ones, and with special attention to those areas intending to develop high-technology industry.

The offer of value-added services arising from the former includes telephony, videotext, high-definition cable television, data-base consulting, telematics, etc., for companies and private users.

Telematics general networks. Its main aim is the introduction of an advanced system of telematic services in order to provide professionals and companies with a powerful instrument for information exchange, as well as to promote the creation of companies supplying such services.

The offer will be carried out through several lines. We can mention, among others, the SPRITEL line, currently producing a flexible and operative communication network, able to meet the telematic needs which may arise in the industrial field, and other specific lines designed to interconnect research and technology together and link it with companies.

Extent Of Investment

The initial amount of investment of resources that will be spent in order to successfully fulfill the EUROPE '93 programs and projects is enormous: The initial global budget of the Special Plan amounts to 336,064 million pesetas. This figure will mean a great effort if the economical dimension of Euskadi is taken into account.



PHOTO: TOURIST OFFICE OF SPAIN

which are:

- To create in Euskadi the suitable underlying structures to allow her integration in the European single market with an absolutely guaranteed competence.

- To redistribute profits derived from improvements in every area within the Basque society.

Therefore, the Basque Government and the County Council Authorities aim to give a suitable response to two urgent issues which cannot be postponed: lack of or deficiency in underlying structures related to communications and environment, on the one hand, and to the existing situations of inequality and social margination in Euskadi nowadays, on the other one.

The following are the objectives of the present Plan:

Improvements of transport and communications infrastructures. Improvements of the underlying structures are of the greatest importance for the Basque

PLAN EUSKADI-93'



THE BASQUE COUNTRY PREPARES ITS FUTURE

EUROPA '93



It is up to all the Basques to achieve Euskadi's complete integration in Europe by 1993.

The Basque Government and "Diputaciones Forales" (County Councils) have already

got a special plan in motion to improve the structure of both transport and communications facilities and to achieve greater cohesion and social solidarity. The Special Europe 93 Plan envisages a series of improvements covering the railway system, motorways, high ways, ports, airports and integrated transport centres. Its aim is to promote Euskadi's role as the strategic axis linking Spain with the rest of Europe.

Likewise, the Plan stresses an improvement of resources in the areas of telecommunications, office equipment and



telematics, and the fulfilment of other important projects such as the creation of an industrial and commercial gas network in Euskadi, hydraulic works and environmental protection and



EUROPA '93

enrichment. But that's not all. It is the Basque Government's belief that a nation's economic prosperity is incompatible with situations of social inequality and discrimination. Because of this,

one of the objectives of the special plan is to fight against poverty through a series of measures including monetary aids, a welfare network and paying special attention to social hardship cases.

The countdown has already started. Euskadi's future is in our hands. Today.

If you are interested in receiving more information about the "Euskadi 93" plan, please send us the following information:

Name: _____

Address: _____

Population: _____

Forward to the following address:

Palacio de Ajuria Enea: Gobierno Vasco: Secretaría General de Plan "Euskadi 93"
Fray Francisco, 5. Vitoria-Gasteiz.

EUSKO JAURLARITZA



GOBIERNO VASCO

Donostia Foru Ardurak



Diputacion Foral de Bizkaia

Arakaldo Foru Ardurak



Diputacion Foral de Álava

Diputacion Foral de Araba



Diputacion Foral de Gipuzkoa

THE BASQUE COUNTRY



The Basque Government, as well as the County Councils of the Historic Territories, and the Central State Administration are thoroughly involved in the Plan, and all these institutions will contribute financially to the completion of the projects, according to their compromise.

The EUROPE '93 Plan is included in the Ordinary General Budgets of the various Basque institutions.

The distribution of the whole amount of



PHOTO: © TOURIST OFFICE OF BILBAO

resources to be provided by the institutions is as follows:

Infrastructure Projects:

- Above-Community competence: 51.92 percent.
- Basque Government/County Councils competence: 21.27 percent.
- Basque Government competence: 19.35 percent.

Social Solidarity Projects:

- Basque Government competence: 7.46 percent.

Geographical Data

Euskadi, the Autonomous Community of the Basque Country, covers an inverted-triangle shaped area, situated in the Center-North of the Spanish State, on the Bay of Biscay coast and next to the Pyrenees' French border.

The two other sides of the triangle are bounded by different communities of the Spanish State: Navarre to the East, Rioja

to the South, and Castilla-León and Cantabria to the West.

Due to its geographical location, it is an excellent linking point between the Iberian Peninsula and the rest of Europe.

The relief of Euskadi is shaped by the craggy and steep Basque Mountains, whose highest peaks do not rise beyond 1,600 meters and among which deep valleys are formed. Toward the South, there are plains sliding down the river Ebro.

Rivers are short and of a low flow, and only the Nervión river is seaworthy at the last part of its course toward the sea.

The weather conditions are typical of its Atlantic situation, mainly on the coastal strip; that is, fresh temperatures in summer and mild in winter, with the rain average around 1,300/1,500 liters per square meter. Inland Euskadi weather is of a more Continental type, but extreme values do not occur, either for temperatures or rainfalls.

The extension of Euskadi is 7,261 square kilometers.

Political Organization

At the present moment, the Autonomous Community of the Basque Country is constituted by the three Historic Territories of Alava, Bizkaia, and Gipuzkoa, the capital cities of which are Vitoria-Gasteiz, Bilbao, and Donostia-San Sebastián accordingly.

Vitoria-Gasteiz is the capital city of the Autonomous Community, and it has the most important institutions: Parliament and Government offices.

It is the Government's duty to carry out the executive and administrative

functions of the Community. In order to finance its activities and responsibilities, the Government is provided with resources generated by an autonomous financial system, based on specific agreements with the Spanish State. These agreements, which have been occurring since 1878, are included in the so-called Economic Arrangement and are a multi-annual pact—the present one expiring in 2001—intended to regulate the financial and fiscal relations between the Basque Country and the Spanish State.

The Basque Government was awarded through the Statute of Autonomy of 1979 certain competence and capacities by the Central Administration of the state, the transfer of which is gradually being carried out.

The County Councils, one for each Historic Territory, are institutions developing activities which are complementary to those of the Government. Their actions are

regulated by a law which discriminates the competence of the different authorities in the Basque Country.

The official languages of the Basque Country are Euskara and Spanish.

Economic, Social Structure

The model of the Spanish economic growth during the 1960s and the beginning of the 1970s, based on a suitable running of the so-called mature sectors—such as steel works, shipyards, and metal conversion in general—enabled the Basque Country to reach economic growth levels much higher than the ones achieved in the rest of the Spanish State.

The economic crisis arising around 1975 had very bad effects on the Basque economy, due to the special production of the above-mentioned sectors.

After the hard-conversion processes undertaken in Euskadi, which were bound to occur as the crisis set in, its production structure has changed essentially, and the industry, after being a 52.1 percent of the Gross Added Value in 1972, has dropped to 46.8 percent in 1985. As opposed to this fact, the service industry has varied from 43.1 to 50.4 percent during the same period of time.

Such alteration of the economic structure has entailed an important recovery of the investing process, particularly from 1985 onward, which has allowed to have a greater productive diversification and to reach higher levels of competition. The factor that Euskadi has five important and consolidated technological research centers is an example that Euskadi is assuming the challenge of change.

The Basque public sector has also contributed to help Euskadi come out of the crisis. Its budget amounted to more than 700,000 million pesetas in 1989, which is approximately 25 percent of the GAV and shows its vital importance.

In Euskadi, apart from a great experience on business matters and a highly qualified labor force, there is a high level of development in infrastructures and public-service equipment. Euskadi has three airports, the largest harbor in the state, and a suitably developed road network. And even if it only takes 1.5 percent of the Spanish State, it has 2.78 percent of the roads, 16.7 percent of the motorways, and 38.7 percent of the highways. As far as the situation of the public services is concerned, it can be stated that there are in Euskadi 57 hospitals, and the average of people per bed in use amounts to 2.2 percent. As for education, the average pupils/teacher ratio is 20.

It can be concluded that Euskadi is a country with a high level of development, that the arrangements and adjustments of the industrial reconversion have come to an end, and that the continuous innovative and economic recovery processes are already real.

Family Business

A tribute to an innovative leader; a thoughtful New Year's gift; a rejection that's a blessing in disguise.

COMMENTARY

A Pioneer In Spite Of Himself

By Sharon Nelton

Early this fall, family businesses lost a friend they probably didn't even know they had—a psychiatrist named Murray Bowen. Bowen was a leader in the development of family-systems theory, in which a patient is regarded not just as an individual but also as a component influenced by the family, its behavioral patterns, and its history. Bowen and others found it more effective to treat the family than just the individual.



PHOTO: TWE CHAO

**It is important
for families in
business to
understand
family systems.**

—Sharon Nelton

While on the staff of the National Institute of Mental Health early in his career, Bowen worked with schizophrenics and their parents. As a professor at the Medical College of Virginia at Richmond in the 1960s, he pioneered the use of closed-circuit television and videotapes in interviewing patients. Such tapes are vital teaching tools in the training of other therapists.

Bowen was also a founder and the first president of the American Family Therapy Association as well as the author of a highly regarded book, *Family Therapy and Clinical Practice* (J. Aronson, 1978). Until he died of lung cancer in October at the age of 77, he maintained a private psychiatric practice in Chevy Chase, Md.

It is unlikely that Bowen saw himself as an innovator in family-business studies. But he was. Go to almost any family-business conference and you'll hear reflections of his work as seminar lead-

ers discuss "triangling" (involving a third person for support or as a buffer when two people can't resolve difficulties between them) or describe the differences between a family system and a business system.

Some of the nation's most prominent family-business consultants acknowledge their debt to Murray Bowen. One of them is David Bork of Aspen, Colo. In his own book, *Family Business, Risky Business* (AMACOM, 1986), Bork recalls being hired as a consultant 20 years ago to help a family-held corporation develop a long-term plan. "It soon became clear that the real issues were control and influence," Bork writes.

Bork says that although he succeeded in helping the business, he came away "perplexed about many of the dynamics existing among the five principals involved. It was then I had my first inkling that family-controlled enterprises might be different."

He began to seek an understanding of the interpersonal dynamics of a family business, and an acquaintance, a child psychiatrist, introduced him to the family-systems theories of Murray Bowen, theories that Bork has applied to his work with family businesses ever since.

Why is it important for families in business—and their consultants—to have some understanding of family systems?

"The goal of applying family-systems theory in business is to identify family patterns that impair operations or impede progress," Bork writes. "Once the impact of those patterns is minimized, the family enterprise can grow, prosper, and maximize profit. The family willing to do this will derive the greatest possible level of satisfaction from the family business."

And, we might add, from the family itself.

PLANNING

"If Something Happens To Me"

By John L. Ward and Craig E. Aronoff

"Dear Judy,

"This letter is written as a precaution. If something happens to me, I want to give you my advice on what to do reasonably quickly and then give some guidelines for the longer term. I'm sending copies to others just in case neither of us is around.

"First, Carl Peterson is my choice as successor..."

Writing such a letter is not a pleasant thought, but it is one of a business owner's most important responsibilities.

Most entrepreneurs seem to think they will live forever. By nature, they are optimistic, vital, and energetic—characteristics that make facing one's mortality and planning for it rare among entrepreneurs.

Consider writing your letter to your loved ones now as you're putting together your year-end tax documents and thinking about the year to come. Here is a possible outline:

Immediate Actions

- Name your successor.

"Put Carl Peterson in charge, and have him appoint a new vice president of marketing to succeed himself. Give him all the freedom he needs to run the business day-to-day."

- Propose the disposition of the business.

"I think that eventually the business should be sold. Don DeSota [include telephone number] can handle this. The logical buyers are Alpha Corp. and Omega, Inc. Others who have expressed an interest are in my 'Buyers File' on my desk."

- Identify sources of cash.

"If I die, there are three life-insurance policies for a total of \$1.2 million in our safe-deposit box. You will also receive 50 percent of my salary for three years."

"If I am completely incapacitated but alive, the life insurance will not pay off. The salary will continue, how-

ever, at 100 percent for six months, then 75 percent for life."

- Suggest contacting advisers.

"I suggest that you call a meeting of all our personal and business advisers to make appropriate plans for the future. For quick reference, I'm listing them all here with their telephone numbers." (List your attorneys and accountant, insurance agent, bank trust officer, investment manager, business broker, and outside members of your board.)

- Offer your thoughts on investing.

"I recommend that you divide the cash between two investment advisers. Ron Kepster and Carolyn Hallberg would be conscientious. Ask [personal attorney] to help you put these funds in proper trusts to avoid taxes."

"You should estimate how much money you'll need to live on comfort-



ILLUSTRATION: JIM STARR

ably (perhaps \$80,000 annually?) and take sufficient funds from the trusts to produce that income when conservatively invested. You'll probably need about \$1 million."

- Note trustee and guardian for children.

"If Judy is not around to implement this program, then Peter Johnson is trustee for the children. If they are not yet 21, Judy's sister, Alice, will be their guardian."

- List important documents.

"You will find the following documents in our safe-deposit box at First National Bank or in the office safe."

Your list should include a personal financial statement; wills; trust documents; life-insurance policies; employment agreements; company certificates of incorporation, bylaws, and minute books; stock certificates; pension fund; children's savings certificates; marriage and birth certificates; and real-estate titles.

Later Actions

Sometimes when the principal of a family firm dies, it is best to sell the busi-

ness. However, it is wise not to rush—especially if a good successor is available and if the company has an effective board of directors.

In other cases, keeping the business in the family may be feasible and desired. In this situation, the letter should contain insights and instructions for those who will suddenly have responsibility for leading the company. It will be valuable for you to do the following:

- Suggest who should hold what titles, who should have which responsibilities, and how key people should be compensated.

• Comment on the company's philosophy and on issues such as policies toward targeted customers, product or service characteristics, choice of vendors, employee compensation, decision-making style, appropriate levels of debt, and capital spending per year.

• Identify critical success factors, such as payroll cost as percentage of revenue, new sales per salesperson, amount of scrap, etc.

• Catalog standards of business performance, perhaps including minimum levels and targets for such indicators as pretax profit, gross profit, return on investment, average days for receivables outstanding, etc.

The Best Insurance

Perhaps the best insurance and assurance you can provide your family is an excellent board of directors. After all, continuity planning is the board's ultimate responsibility. If you have such a board, you should share your letter with its members, too.

The letter to your family needs to be reviewed at least annually to reflect changing circumstances. Your update should become part of your year-end paperwork. Be sure to share revisions with key advisers and board members.

A letter explaining what to do "If Something Happens to Me" is perhaps the most thoughtful New Year's gift a business owner can give to a family.



PHOTO: T. MICHAEL REZA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College, in Marietta, Ga. Both are family-business consultants.

Mark Your Calendar

Jan. 10-12, Tucson, Ariz.

"Your Family-Owned Business: How To Build It, Manage It, Make It Last," a conference sponsored by Laventhol & Horwath, American Express, and Shearson Lehman Brothers. Speaker is Peter Davis, director of family-business studies at the Wharton School of the University of Pennsylvania. It will be repeated Feb. 21-23 in Duck Key, Fla. Call Nancy Cohen at (800) 521-1818.

Jan. 25, Chicago

First in a series of seminars of the new Loyola University Chicago Family Business Program, an ongoing forum aimed at companies with at least \$10 million in annual sales and more than 100 employees. The program is designed to further the development of both the business and the family members. Contact Drew Mendoza at (312) 604-5005 or write to the Loyola University Chicago Family Business Program, P.O. Box 257608, Chicago, Ill. 60625-7608.

Feb. 9, New York

"Hiring the Best/Keeping the Best," one of a series of one-day seminars offered by the recently initiated Family Enterprise Project of New York University. Write or call LaVaun Eustice, Assistant Director, Management Institute, New York University, 48 Cooper Square, Room 108, New York, N.Y. 10003; (212) 998-7215.

Feb. 10-14, Philadelphia

"The Next Generation of Family Members in Family-Held Businesses," a seminar for young adult family members and their spouses. Contact the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

How To Get Listed

The Family Business Calendar lists national and regional events that are open to the public. Send listings three months in advance to Family Business, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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CASE STUDY

Turned Down By The Bank

Revenues and gross profit for the Andrews Co., a \$25-million-a-year manufacturing firm, have been lower this year than in the past two years.

John Kemper, a loan officer for First Commercial Bank, has worked with the Andrews account for many years now. Yesterday Michael Andrews, the senior member of the family management team, met with Kemper to discuss a loan for expanding manufacturing facilities and an increase in the current line of credit.

Kemper asked Michael about his long-range plans for the business and was given a sketchy two-year financial



ILLUSTRATION: JIM STARR

projection. When Kemper asked about management's capability to reverse the declining gross profit trends, Michael confidently pointed out that he had brought all of his four children into management positions and had given them each the title of vice president.

Kemper knows the two oldest children fairly well. The oldest, a daughter, while very bright, has always given her husband and children first priority. The second, a son, seems uncommitted to managing anything except the amount of beer he consumes at a local tavern.

Earlier today, Kemper called Michael to tell him that while the bank is going to continue its current loans, it is unwilling to grant additional credit at this time.

Michael became enraged and threatened to move his entire banking business to a competitor, Second National Bank. After fuming for several hours, he has called a meeting of the family management team to consider alternatives. What should the family do about the bank's decision to decline the loan request?



PHOTO: GARY SHAW

Thank The Bank

James Brogden, owner of Master Industries, Inc., a custom injection molder in Ansonia, Ohio:

Michael needs to get on the phone and apologize to John Kemper for his behavior earlier in the day. In fact, he should thank Kemper for making him aware, in a very real way, of the bank's lack of confidence in the Andrews Co.

The business is in decline, and the family has to make some serious choices. Hopefully, the business can be preserved, but, without some changes, the possibilities seem bleak. The family needs to begin devising a long-term strategy that will provide a clear plan of development and growth for the business.

The loan officer's question on management capability—and, by implication, succession planning—is important. To address this issue, family members must make some serious decisions about their commitment to the business. It appears that the two oldest children are ambivalent about their participation, and this has manifested itself in a very dysfunctional way with the son's drinking problem. The family might consider engaging a family therapist for counseling that would include taking an honest look at the children's desires with respect to the business.

To help with succession planning, I'd advise the family to set up a board of directors and assign it the task of defining a job description and requirements for the next chief executive.

It could also help establish guidelines for developing family members who might be candidates for the top post.

The board, which should include competent business executives from outside the family, can also help with long-term strategic planning.

Once First Commercial Bank sees these steps being taken, its confidence level should improve. With a good management-development plan, a strategic plan, and a transition plan all in place, the Andrews Co. should find that the loan for expansion and an increased line of credit are forthcoming.



PHOTO: FREDMAN-BLACK STAR

Correct Your Deficiencies

Benjamin Benson, a family-business consultant based in Boynton Beach, Fla., and co-author of Your Family Business: A Success Guide for Growth and Survival (Dow Jones-Irwin, 1990):

In these uncertain times, the risk-tolerance levels of banks have decreased, and they are increasingly sensitive to the quality of a borrower's management. Long-standing relationships mean less than before, and increased emphasis is placed on whether management has a clear vision of the future.

Rather than faulting the bank, Michael and his management team should work toward correcting the company's deficiencies. In my experience, many family businesses avoid strategic planning because they prefer to "fly by the seat of their pants." With the cost of doing business in today's fast-moving environment, however, this casual approach may be an expensive luxury. A strategic business plan should be established to articulate where the Andrews Co. is, where it wants to be in the next three to five years, what actions it will take to get there, and how it will deal with the declines in revenues and gross profit.

The Andrews family should also re-examine its philosophy regarding the involvement of family members in the business. Merit, rather than position in the family, should be the highest priority. This is necessary to the accomplishment of successful management succession. There should be no honorary positions—such as the vice president titles seem to be.

A family-business consultant or organization-development specialist may be able to help the Andrews family address these critical issues, and an independent board may be able to provide the necessary objectivity. If the family cannot deal with these changes in its corporate and family culture, it should bring in professional management.

If it motivates the Andrews family to take control of the future of the business and reorder the family's involvement on a healthier basis, the bank's refusal to grant the additional credit is a blessing in disguise.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Johnstown, N.Y.

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

VACATIONS

Volunteer Vacations: Doing Well By Doing Good

How would you like to take a holiday ski trip, visit a national park, or roam a wooded nature trail—and get a tax break while you're at it?

Thousands of those who like the outdoors do it every year, using valuable tax deductions to help cover travel costs and other expenses. Is there a catch? Of course there is. You have to do some work for a good cause.

Volunteers cannot get deductions for the time they give, of course, but they can take deductions for certain out-of-pocket expenses. To attract volunteer helpers willing to spend both time and tax-deductible money, a number of charitable organizations have worked up all sorts of intriguing outdoor activities.

For example, the American Hiking Society's Volunteer Vacations program involves two-week trips to work on wilderness-trail maintenance. "You provide your own transportation," says the organization's Shirley Hearn, "and we provide food and lodging." If you drive to the trail site, you should be able to deduct 12 cents a mile for the round trip. If you must fly, you can deduct the airfare, parking, and other travel-related expenses.

If you are not provided with meals while you're working, you should be able to deduct your meal expenses.

"With us, the situation varies," says Paul Martin, spokesman for the Nature Conservancy. On some volunteer projects, he says, "you pay all of your expenses, including food and lodging." In other cases, lodging is provided.

Many volunteer organizations will

take anyone who signs up as a work-project volunteer. The National Ski Patrol System, however, won't sign you up unless you have been trained and certified to do the job. "The usual procedure," says Becky Ayres of the National Ski Patrol System, "is to get your training, and eventual job, in a specific area." But that doesn't mean you can't go to some other ski area during peak-crowd times if the local patrol will say

out-of-pocket travel expenses the same as any other volunteer.

Not all nonprofit outdoor organizations qualify for tax deductions. Some, such as the Sierra Club, are listed as lobbyists, making contributions nondeductible. "The question you have to ask," says Ski Patrol legal counsel Walter Gregg, "is whether or not the nonprofit organization has an Internal Revenue Service rating as a charity." If it does, and if its program fits your vacation plans, you can pick up some deductions.

Here are some of the organizations seeking outdoor volunteers:

- American Hiking Society, 1015 31st Street, N.W., Washington D.C. 20007; (202) 385-3252. For \$5 you can get a list of volunteer jobs on public lands as well as some environmental and archeological jobs.
- The Nature Conservancy, 1815 North Lynn St., Arlington, Va. 22209; (703)

841-5300, will tell you the nearest conservancy office where you can submit a volunteer application.

• National Ski Patrol System, 133 South Van Gordon St., Suite 100, Lakewood Colo. 80228-1706; (303) 988-1111. Contact the ski patrol office in your area first. If you have any other questions, the national office will help.

The Givers Guide, by Philip English Mackey (Catbird Press), covers all sorts of topics under the "art of giving," including a detailed listing of volunteer organizations by subject matter. ■



PHOTO: ©DAVID STOECKLE/UNIPHOTO

On patrol for vacation, voluntarism—and tax deductions.

in writing that it needs extra help.

To become a ski patroller, you must pass a series of courses in winter emergency care, cardiopulmonary resuscitation, toboggan handling, lift evacuation, and special skiing skills.

While you're in training, you can't take any travel-related tax deductions. But when you graduate and begin to do patrol work, you can start deducting

BETTING

Beware Of Foreign Lottery Pitches

If you ever get a pitch to buy foreign lottery tickets—in the Irish Sweepstakes, say, or the Australian, Canadian, German, or other national lotteries—toss it in the wastebasket.

That's the advice offered by Inspector Thomas McClure of the U.S. Postal Service. Why? "Because playing foreign lotteries by mail is illegal," McClure explains.

The hucksters are clever. They say that your winnings would be "tax-free

and confidential." If you could ever collect, your winnings would always be taxable, according to an Internal Revenue Service spokesperson.

"But the problem," says McClure, "is the fact that you pay several times the list price for the tickets, and your chances of collecting any winnings are nil."

The lottery-seam artists apparently run off with most, if not all, of the payoff. They know that you cannot report them, because betting through the mail is illegal. ■



Peter Weaver is a Washington-based columnist on personal finance.

SHOPPING

Open Season For Diamonds

"It's been a tough year for retailers," says Darryl Boone, vice president of Boone & Sons Jewelers, which has several stores in the Washington, D.C., area, "and this means diamond prices for the holiday season should be very competitive."

To get the best diamond for the best price, Boone advises, you should shop around some of the better-known independent jewelers as well as the shopping-mall chains.

The foremost quality to look for "is the beauty of the cut," Boone says. Compare stones and jewelry pieces, he says. "Some diamonds look much more vibrant than others, while some are dead-looking and don't show as much life."

A diamond's cut is not officially rated. You just have to see it and make your own decision. But other diamond



PHOTO: © JOHN R. ENDRICH—THE STOCK MARKET

Holiday shopping for diamonds? The prices could be a pleasant surprise.

qualities—color (white or yellowish), clarity (flaws), and carat (weight)—are rated. With smart shopping, you may save money on a good-looking stone.

The whiter the diamond, the higher the color rating. "A G rating is on the upper side of the color range," Boone says, "and is something to aim for."

You can pay more for higher color ratings, but generally only a jeweler can tell the difference.

Regarding flaws, you should be content with an SI-1 (slightly imperfect) rating, which means the look will be totally pleasant to the eye. Higher clarity ratings cost more.

If a diamond weighs slightly less than the usual one, two, three, or more full carats, you can get a better price. A "light-carat" diamond weighing nine-tenths of a carat looks just about the same as a costlier full-carat stone.

A really nice one-carat diamond runs around \$3,000 to \$4,000. If you take a slightly lower carat and clarity rating on another stone that is equally well cut, you might save \$1,000 or so. So too for multiple-diamond settings. A five-carat tennis bracelet selling for \$5,000 might go for \$4,000 with slightly lower-rated diamonds. ■

TRAVEL

Avoiding The Airlines' Bumping And Grounding

The holidays are upon us, and that means airports will be jammed. This is the time of year when passengers are most likely to be bumped off flights because of overbooking or be grounded by weather and equipment delays.

There are two basic bumping situations: voluntary and involuntary. The voluntary type is when the flight is overbooked and the airline starts offering you inducements to get off the plane and take another, later flight.

If you have some time to spare, you might pick up a free fare to any spot on the airline's route map. The airline gives you the ticket voucher and puts you on the next available flight. Raise your hand fast to get an option on the offer.

The International Airline Passenger Association recommends that before you accept such an offer, you ask questions such as:

- When is the next flight out? Will you get a confirmed reservation all the way to your final destination?

- What are you getting? If it's a voucher for a free ticket, what, if any, are the restrictions? Some restrictions can be severe, limiting your flexibility in making reservations. An unrestricted ticket is the best kind of offer.

- Remember, everything is negotiable. If they really want you to get off to make room for VIPs, you might even be able to get cash instead of a free fare.

The involuntary type of bumping—when you don't have a choice of flying or staying—invokes the government's "denied-boarding" rules, which require the airlines to pay you fixed sums de-

pending on the length of the delay.

If you're put on another flight that gets you to your destination within an hour of your original scheduled arrival time, you do not get compensation.

If you're put on a flight that gets you there more than an hour but less than two hours after your original arrival time, the airline must pay you \$200. It must pay \$400 if your new flight gets you there more than two hours late.

Delays or cancellations caused by the weather or equipment changes don't require incentives or mandated payments. But most airlines do try to get you on the next flight out. If you are pleasantly persistent, the airline might give you meal vouchers; you may even receive an airport hotel voucher if you're delayed overnight and away from your home base.

An effective way to avoid getting into the bump-and-delay hassle is to get to the airport in plenty of time to assure you are near the head of the check-in line.

Pre-selecting your seat is also a protective ploy.

If you're in a long line of bumped passengers hoping to get another flight, you might try slipping over to a phone booth and reserving a seat on another flight. Then you will reach the ticket counter with a confirmed reservation, and you need only make sure your ticket can be transferred to the other flight without your having to pay anything extra.

Remember, when you have the airline's frequent-flier card or number, the airline often will give you special privileges on waiting lists, and it is apt to give you more voucher goodies if you have to wait past lunch time or dinner time. ■

INVESTMENTS

Buying Collectibles For Fun, Not For Profit

You see more and more pitches this holiday season to buy a variety of collectible items as "investments." Their value is sure to go up, you're told.

Maybe; but probably not. "As a rule," says Sheldon Jacobs, publisher of *No-Load Fund Investor* newsletter, "collectibles are a lousy investment." He makes his point with this story about the famous "inverted Jenny" air-mail stamp:

The plane on the stamp was printed upside down in 1918, and a few sheets got out before production was stopped to correct the error. On Oct. 12, 1989, one of these rarest-of-rare stamps was sold at auction for the record sum of \$1 million, up from \$27,000 (the previous recorded sale) in 1944.

"That sounds like princely growth," Jacobs says, "but it works out to only an 8.2 percent annual compounded gain, while the Standard and Poor's 500 [stock index], with dividends reinvested, gained 12.3 percent annually over the same period."

If you're buying some collectible as an investment, it's a long shot. If, however, you are truly interested in a certain collectible field—stamps, coins, antiques, baseball cards—then invest—but for fun, not for profit.

To get the most for your money with collectibles, study the market and read all about it, says Keith Zener, trends editor for *Coin World* newspaper. "You also talk to dealers, hit some of the collector shows, and join one of the local clubs." By becoming an enthusiast, you become your own expert, able to recognize a bargain when you see it. ■

For Your Tax File

What you need to know to keep taxes from overtaking you.

By Albert B. Ellentuck

CASH TRANSACTIONS

IRS Tightens The Reporting Web

In the good old days, a customer who wanted to pay cash was welcomed with open arms. Today, a customer who pays more than \$10,000 in cash in a transaction may still be welcomed, but the seller who fails to comply with the Internal Revenue Service's reporting requirements could run into trouble.

For example, a car dealer sells a new car for \$28,000 to a well-heeled buyer who pays \$17,000 in cash and agrees to pay installments of \$1,000 a month to cover the balance. Because the down payment exceeds \$10,000, the dealer must report it to the IRS within 15

the down payment and one for the installments.

These reporting rules, which were set up to lead the IRS and other federal agencies to cash-intensive illegal activities such as drug dealing, affect all businesses that sell large-ticket items. There can be criminal as well as civil penalties for failure to comply.

Lawyers who receive large cash payments from clients in payment of fees have a dilemma. Many lawyers believe that the information required on the Form 8300 could be considered confidential client information that they should not be required to disclose to the IRS. Several cases testing this issue are in various courts.

Other business people have no such dilemma, however. When they receive a large cash payment, they must report it to the IRS. ■

DAMAGES

Collecting From The Company

Shareholders of closely held corporations will want to note the outcome of a claim for damages by a corporation president who, with his wife, owned 95 percent of the company's stock. The president was injured on the job, had surgery, and did not return to work for several months.

The president received \$122,500 in damages from the corporation and did not report the amount as income, since damages for personal injuries are tax-free. The Internal Revenue Service contended, however, that the sum was taxable income, not damages. The dispute went to the Tax Court, which held that the corporation could deduct the payment and that it was nontaxable to the president. It was important to the court that both the president and his corporation had separate legal counsel.

This case could be overturned on appeal, or a similar case could be decided differently in another court. Nevertheless, controlling shareholders who sustain injuries or property damage in connection with working for the firm should consider seeking damages from their firm. Any payment made should be treated by the corporation as deductible and by the shareholder as nontaxable. At worst, such treatment can only be denied. ■

PERSONAL TAXES

Check Your Withholding Now

Between now and Dec. 31, taxpayers will be busy trying to reduce the tax bite that comes next April. One basic item that should be reviewed, in order to make certain you don't get hit with any penalties, is the amount you will have paid to the government this year through your estimated tax payments and your withholding.

Most taxpayers whose income is rising make "safe" estimates. In other words, they estimate their taxes for the current year according to their taxes for the prior year.

For example, if Joe Doaks paid federal taxes of \$10,000 in 1989, he can pay estimated taxes of \$10,000 (\$2,500 for each quarter) for 1990, even though his income and his taxes for 1990 may triple. Under the rules, there would be no penalty for underestimation, because he had filed a "safe estimate."

In most closely held corporations, the self-employed individual is also an employee, and therefore the withholding on the individual's salary is also counted in calculating the penalty for underestimation. In other words, if the total of withholding and estimated payments at least equals last year's taxes, there would be no penalty.

What if you, the owner of all the stock of your company, discover that as of today your estimated payments and withholding fall short of last year's taxes? This may happen through some miscalculation, or the estimated payments may not have been made because of an oversight.

Don't worry. You can increase your own withholding for the rest of the year so that by Dec. 31 your total withholding and estimated payments will equal last year's taxes.

It does not matter if a larger portion of the withholding falls within the last two or three months; the law treats withholding as if it were paid in equal quarterly installments.

Check your withholding and estimated payments now—particularly if you are relying on a "safe" estimate. Although increasing withholding is easier if you are the controlling shareholder, you may be able to make similar arrangements with any employer, even if you are not a stockholder. ■



PHOTO: © LAWRENCE RUGGERI—UNPHOTO

Cash payments exceeding \$10,000 get special IRS attention.

days, using Form 8300.

The dealer also must provide a statement to the buyer notifying him or her of the information that is being filed with the IRS.

New regulations from the IRS make this reporting even tougher. The dealer now must also report the installments because they total more than \$10,000 in cash payments. (Under the old rules, the dealer did not have to report the installments, because no single payment exceeded \$10,000.)

Thus the purchase now requires two separate filings of Form 8300—one for

Albert B. Ellentuck, author of The Small Business Tax Planning Guide (Avon), is a senior tax partner of Laventhol & Horwath. Readers should see tax and legal advisers on specific cases.



Direct Line

In which experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

LAWNS AND GARDENS

Exterior Decorators

Is there an organization that can help me locate information on lawn ornaments?

C.A., Silver Spring, Md.

Garden Supply Retailer, a softcover book written by Kay M. Olson and updated annually, contains a comprehensive listing of manufacturers, brand names, trade associations, and distributors of all types of products and services connected with landscaping and lawn care.

To order the latest edition of the book—the 1991 Green Book Edition—send a check payable to Garden Supply Retailer for \$10.50 (which includes Maryland sales tax) to Debbie Hoover, c/o Garden Supply Retailer, 1 Chilton Way, Radnor, Pa. 19089. **MB**

SERVICES

Capturing Images

I am interested in starting a photography business similar to what local department stores offer for family portraits. Where do I start?

C.M.F., Temple City, Calif.

An informal survey of managers and buyers at eight major department stores throughout the country disclosed



ILLUSTRATION: DAVE ALLEN

that stores prefer to hire individual photography firms to handle in-store portraits. Photographers' agreements with stores vary. Some are paid a fixed amount for their work. Others receive free or low-cost space within a store and keep the profits from their portrait

work; the store benefits by having the service to offer customers. The managers suggested that you apply to stores directly.

For further information, you can also contact the Photographic Society of America, an all-volunteer organization and information exchange for its 12,000 member photographers. Its monthly publication, *PSA Journal*, provides a networking service through its advertising section.

Write or call the organization at 3000 United Founders Blvd., Suite 103, Oklahoma City, Okla. 73112; (405) 843-1437. **MB**

ASSOCIATIONS

Facts On Furniture

Where can I get information on trade associations pertaining to woodworking and furniture making?

J.N., Imperial, Mo.

William Morrissey, director of the furniture manufacturing and managing program at North Carolina State University, can give you some pointers on what is involved in high-volume furniture production.

You should choose the kind of furniture you want to produce—upholstered furniture or so-called case goods, such as tables, chairs, and bedroom sets—he says, and then you must learn the management and technical skills that are involved.

For more guidance, call Morrissey at the university, (919) 737-3335. **MB**

EXHIBITIONS

Show Time For Hardware

Can you tell me where I can obtain a list of trade shows throughout the country that specialize in products for the hardware industry?

P.E.H., Antrim, N.H.

Trish Lilly, associate director of the National Wholesale Hardware Association, can give you information on the various trade shows and other educational seminars available on the hardware industry.

Write or call Lilly at the association, 1900 Arch St., Philadelphia, Pa. 19103; (215) 564-3484. **MB**

CONSTRUCTION

Remodelers' Resources

I need information on starting a remodeling business in the construction field.

E.M.C., Ambridge, Pa.

"The remodeling contractor today must learn how to survive in a very competitive field," says Daniel Miller, executive director of the International Remodeling Contractors Association. He



recommends that you join a reputable local trade association and learn as much as you can about the industry. The association should have seminars on subjects such as writing a legally sound contract, estimating a job, pricing your services and supplies competitively, and advertising effectively.

Compare your state's home-improvement laws with federal regulations on the field, he suggests, because the more restrictive rules will apply.

For more information, including the names of local groups helpful for you, write or call Miller at the International Remodeling Contractors Association, P.O. Box 17063, West Hartford, Conn. 06117; (800) 937-4722. **MB**

PUBLISHING

Protecting The Prose

Please tell me how to get a copyright for a book I am about to publish.

R.A., Santa Barbara, Calif.

Under the Copyright Act of 1976, a copyright generally is provided for the artist's or author's lifetime plus 50 years. The Copyright Office recommends that authors put in any pub-

lished work a notice of copyright (the symbol ©, the word "Copyright," or the abbreviation "Copr."), the year of first publication, and the copyright holder's name. This informs the public that the work is protected by copyright.

To register a copyright—thus putting its facts on record—fill out the appropriate application form (there are several forms), and enclose it with a \$10 fee and two copies of your work.

For more information and the correct application form, write or call the Copyright Office, LM 455, Library of Congress, Washington, D.C. 20559; (202) 479-0700. ■

TRAVEL AND LEISURE

Holidays For Dudes

I am interested in starting a dude ranch. Where can I obtain information on this subject?

B.H., Mount Airy, Md.

Mark and Amey Grubbs run the Dude Ranchers Association, which has 96 member ranches. They will be happy to answer your questions.

The term "dude ranch" emerged in the late 1800s, when Western ranchers extended their hospitality to newcomers, or "dudes," who were interested in learning about the Western way of life. Today's dude ranches are vacation spots that offer their customers horseback riding and other activities reflecting Western life.

Most dude ranches require an investment in property and horses, says Amey Grubbs, and the investment varies according to the property location. Grubbs adds that most dude ranches operate year-round but that spring, summer, and fall are the most popular seasons. Since a dude ranch is a vacation destination, it is advisable for the



owner or manager to be on the premises at all times.

For more information on this type of business, write or call Mark and Amey Grubbs at the Dude Ranchers Association, P.O. Box 471, LaPorte, Colo. 80535; (303) 493-7623. ■

COIFFURING

Hair Appointments

Where can I get a list of all the hair-dressing salons in California? I want to contact them regarding beauty supplies.

J.P., Huntington Beach, Calif.

You can buy a list of all California-based hairdressing salons from the Department of Consumer Affairs, State Board of Cosmetology, 1020 N Street, Room 402, Sacramento, Calif. 95814. Mark the envelope to the attention of "Special Jobs."

The cost is 4 cents per name, or \$978.40 for a complete list; the minimum order is \$50. You can pay by check or money order.

For more information, call the data-processing division of your state's Department of Consumer Affairs, at (916) 445-7061. ■



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Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact *Your Small Business Survival Guide*, at \$3 a copy.

To order, write to the Circulation Department at the address above. ■

THIS MONTH'S MOST-ASKED QUESTION

Employee Benefits

High on the list of concerns expressed by our small-business readers this month are employee benefits—which ones are required or at least desirable, how to choose them, how to contain their costs.

An employee who is paid \$30,600 a year costs the employer an additional \$7,000 in benefits, according to Martin Lefkowitz, an economist with the National Chamber Foundation. The foundation is a research organization affiliated with the U.S. Chamber of Commerce.

Workers' compensation insurance, unemployment insurance, and Social Security are required by law.

Benefits not required by law but offered by many employers include pension plans, health insurance, disability insurance, life insurance, and defined-contribution pension plans such as 401k savings plans. For more information on health-care plans, see "10 Ways To Cut Your Health-Care Costs Now," *Nation's Business*, October 1990.

How can you reduce the cost of your employee benefits? "One way is to set up a flexible, cafeteria-style benefits plan," Lefkowitz suggests. "That way, employees can pick and choose the benefits that are best for them, and the employer can budget a fixed amount for employee benefits." All costs above that amount are absorbed by the employee.

There are various ways to obtain a great deal of information on employee benefits. A local independent insurance agent can explain the options and write a cost analysis for you. A small-business consultant can be helpful on the subject. In addition, the U.S. Small Business Administration offers information on employee-benefit plans. Write or call the SBA at 1441 L Street, N.W., Washington, D.C. 20416; (202) 653-6565.

The National Chamber Foundation of the U.S. Chamber of Commerce publishes an annual survey of employee-benefit plans. *Employee Benefits* (1990 edition) is priced at \$25. It also is available on a computer diskette titled *Employee Benefits Analyzer*, which can compare your benefits plan with plans of other companies your size and tell you how much you should be spending on benefits. The diskette costs \$95. Both items may be ordered by calling (800) 638-6582. ■



Where I Stand

This Month's Issue: **Regulation**

Your responses to these questions on the regulatory climate for business will be used in an upcoming major article

on this critical issue. **You can fill out the attached postage-paid card or fax this page to 202-463-5636.**

1. How does government regulation today compare with that of five years ago?

- a) Heavier
- b) Lighter
- c) Unchanged

2. How do you view the threat of restoration of the controls eliminated by regulatory reform in the 1980s?

- a) Very serious
- b) Serious
- c) Minor
- d) No opinion

3. What type of regulations pose the most difficult compliance problems?

- a) Taxation
- b) Environment
- c) Safety and health
- d) Personnel policies

4. Which level of government is more oppressive in regulating your business?

- a) Federal
- b) State
- c) Both equally oppressive
- d) Neither oppressive

5. What are the most effective ways to achieve lasting regulatory reform?

- a) Elect more business people to legislative bodies
- b) Make Congress adhere to rules that it imposes on business
- c) Provide for automatic repeal of rules not economically justified
- d) Conduct consumer-awareness campaigns on cost of regulations

6. What are the most objectionable aspects of government regulations affecting business?

- a) Substitution of government mandates for managerial responsibilities
- b) Diversion of company resources
- c) Impact on consumer costs
- d) Threat of government-run economy

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Franchising

The mix of potential franchisees is changing, and that's good news for many would-be entrepreneurs.

By Meg Whittemore

Expanding Opportunities For Minorities And Women

One of the fastest-growing segments of small-business owners in the country is made up of minorities, according to the U.S. Department of Commerce. The finding suggests that in the decade ahead there will be an increase in the number of minority-group members who purchase franchises.

"Franchisors are gradually waking up to the reality that their pool of available franchisees in the 1990s is shifting from white males to minority groups and women," says Susan Kezios, president of Women in Franchising. Her Chicago-based organization offers minority and women entrepreneurs various seminars on franchising, informal contacts with franchisors, and information on obtaining funds to buy a franchise.

Kezios sees the trend toward more women and minorities in franchising as a reversal of the recent decline of participation by minorities, from "almost 30 percent during 1983 to an estimated one quarter during 1989."

The business outlook for women is also promising. Women own a full 30 percent of all U.S. companies, according to a recent study by the U.S. Census Bureau. Commenting on that study, Susan Engeleiter, administrator of the U.S. Small Business Administration, says she thinks "women will own about 37 percent of all American companies by the turn of the century."

The expected upswing in minority and women ownership will mean opportunities for both the franchisors and the aspiring entrepreneurs knocking on their doors.

Owen McCloud, a minority business owner in Tucson, Ariz., took advantage of an opportunity with Boxworks, Inc., a gift-packaging and shipping franchise headquartered in Nashville, Tenn.

McCloud bought an existing Boxworks franchise in Tucson last January for \$80,000. His capital came from the sale of his car dealership. Though he had the money for his most recent business venture, it wasn't so when he first got into business 13 years ago, he says. It took some creative thinking at that time to get start-up funds, McCloud explains. "I got my original start from an investment company. They gave me my seed money so I could then go to the Small Business Administration for additional loans."

Today, McCloud owns one Boxworks and is thinking of purchasing a second outlet, this time with a partner.

Boxworks offers a line of wrapping papers, boxes, balloons, party products, cards, stationery, and shipping services. Recently, the franchise added an executive gift line. "That means you can buy it, wrap it, and ship it all out of one location," McCloud says.

Sales over the past six months have averaged "about \$600 to \$800 a day," McCloud says. But the economic down-

turn and the events in the Middle East have quelled his customers' discretionary spending, he says.

In response to lower sales, McCloud has cut back on advertising dollars and has begun to make personal sales calls to drum up business. "In a down economy, you have to get out and reach the customer," he says.

McCloud's entry into franchising was relatively painless, but that is not always the case for minority and female would-be franchisees. Kezios, of Women in Franchising, says the major stumbling blocks for women and minority entrepreneurs are access to capital and technical know-how. "I encourage both



Boxworks franchisee Owen McCloud with his wife, Felicia.

groups to align themselves with a franchisor who will provide them with the basics of running a business," says Kezios, "and that way they can augment their people skills with the franchisor's business knowledge."

McCloud's advice to other minorities and to women looking at franchising as their next entrepreneurial step is simple. "Be prepared to invest a lot of time and hard work," he says. Don't overlook investment companies as a possible source of money, he adds, and put together a solid business plan.

"Know where you want the business to be in one to five years," he says, "and do your research on the franchise, the market, your projected expenses, and your planned income stream."

It won't be easy, McCloud says, but in the end it will be worth the effort. ■

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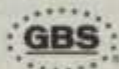
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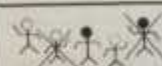
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Editorials

For A Change, Politicians Should Start Listening To The People

This interval between Election Day and the start of the 102nd Congress affords its members an opportunity for reflection on the special challenges they will face in the new session.

They should ponder how they will demonstrate that the new Congress is indeed a viable branch of the federal government, despite the miserable performance of its predecessor.

The chaos—sometimes bordering on anarchy—that surrounded the final months of the 101st Congress understandably outraged the vast majority of voters.

Consider the background: American military forces in the Middle East facing the possibility of war at any moment. Long-subjugated countries that had thrown off communism looking to the United States as a model of economic and political freedom. And, in Washington, D.C., the U.S. Congress was unable to keep its own government functioning because members could not pass a budget on time.

It was that spectacle that made voters wonder whether the Congress had lost its capacity to govern effectively. The jury is still out. The manner in which lawmakers taking office next month conduct the nation's affairs will provide the basis for a decision.

There is a longer-range aspect to public service in the 1990s. A survey by the Times Mirror Center for the Study of People & the Press concludes: "Since 1987, there has

Voters' Attitudes Toward The Federal Government

Percentage Of Respondents Agreeing With Each Statement:

	1987	1990
I have no say in government	52	57
Elected officials lose touch	73	78
Elected officials care what I think	47	44
My vote counts	78	73
Govt. is usually wasteful	63	67
Govt. controls too much of our lives	58	62

Source: Times Mirror for The People & The Press, 1990 political ideology survey

been a significant upswing in feelings of mistrust of political leaders, disillusionment with politics, and feelings of powerlessness." (See the table.)

A major reason for those views is the congressional habit of offering higher taxes and expanded government as solutions to national problems, although voters have consistently said they are opposed to both.

That attitude is particularly strong among small-business people. A survey by the Connecticut Mutual Life Insurance Co. showed that the owners of smaller firms put taxes and government regulation at the top of a list of impediments to success.

Business people were especially worried Congress is imposing still more tax increases in the face of a looming recession that could only be worsened by shifting resources from the market to the federal treasury.

Two additional findings of the Times Mirror poll should interest members of the incoming Congress:

77 percent of Americans believe that the strength of this nation is based primarily on the success of American business, and 58 percent believe that government regulation of business does more harm than good.

The major challenge facing the new Congress, therefore, is to recognize that voters perceive higher taxes and more regulations as problems, not solutions.

Congress must learn that lesson if it is to get back in step with the people it represents.

A Question For Lane Kirkland

At the same time that Mikhail Gorbachev is warning that the Soviet Union's failure to adopt a market system would destroy its economy, Lane Kirkland is warning that "free markets have their own severe limitations."

In a recent speech to the Socialist International, an organization of the world's socialist and social democratic parties, the president of the AFL-CIO added that free markets "do not, unless compelled, discern the difference between employment and exploitation."

Earlier, Gorbachev had proposed an economic-reform plan that declared, "Humanity has not yet developed anything more efficient than a market economy."

Citing the vast changes sweeping Central and Eastern

Europe, Kirkland scorned as a myth the idea that "the collapse of communism is the victory of capitalism and the final vindication of raw market theory." He appealed to the Socialist International to support "a strong social dimension to fill the gap between the receding state and the emerging market economy."

It's easy to understand Gorbachev's view. He sees a market economy as the only hope for his country, which is on the verge of economic collapse after 70 years of collectivism. To their sorrow, its workers are keenly aware of "the difference between employment and exploitation."

But why should Kirkland denigrate a system under which the members of his organization have achieved a living standard never even approached in any socialist country? That is a question to which those members might want an answer. ■

Free-Spirited Enterprise

By Janet L. Willen

'Tis the season to go shopping.

We've heard from service businesses, retailers, and manufacturers, whose creative ideas for gift-giving are sure to make gift-buying fun.

FROM THE BIG TOP

Just in time for the holidays, the circus is coming to town—with Ringling Bros. and Barnum & Bailey Stores.

These new theme stores look like circus wagons and offer apparel, crafts, toys, and activities for children of all ages. There are clothes with circus motifs, like Tammy the Clown polo shirts and Clown College jumpsuits, as well as clown costumes and juggling and magic kits. And children who want to be clowns can be made up to look like one. Service is with a smile, because the store's staff members were trained by graduates of the circus' Clown College.

Ringling Bros. and Barnum & Bailey says circus stores will open this year in Fairfax, Va., Farmington, Conn., and Short Hills, N.J.

NEWS FOR THE NOSE

If the name Harley-Davidson makes you think of the smells of gas, oil, and rubber, then smell again. The motorcycle company, based in Milwaukee, now offers bikers and armchair bikers Harley-Davidson Cologne and Aftershave developed for men. Featured at Harley dealers and at the first Harley fashion boutique, in Kansas City, Mo.

For fragrance in the home, you might take a whiff of the Smell of Christmas, from Aromatique, of Heber Springs, Ark. A typical



ILLUSTRATION: MARTHA WEIGER

package in this home-fragrance line includes a medley of cones, nuts, cinnamon sticks, and citrus- and spice-scented wood chips and red berries. They are arranged in a variety of baskets, bowls, dishes, and wood containers, some shaped like a reindeer or a sleigh.

CAST AWAY

Wannabe, of Berkeley, Calif., wrote to say that business people who'd rather be fishing can get a new angle on their pursuits with Office

Anglin'. This "fishing trip in a box" lets you practice your casting while you sit at your desk.

The box contains a 20-inch fishing pole with closed-face spin casting reel, an "Accu-Fly" lure, an instruction sheet on casting, and a gone-fishin' tag to hang on your office door.

FOUR-FOOTED FINERY

To help unleash the holiday spirit, the Bone Jour Boutique for pets, in Washington, D.C., is selling canine

and feline jewelry. Your pet might like a faux pearl necklace with a gold dog bone, or perhaps one with a silver fish, or gold beads with mice.

A pet with simpler tastes may prefer a George Bush or Mikhail Gorbachev squeaky toy. Or if it likes to dress up, it may like a pair of antlers or a Santa suit.

CHOCOLATE DESK SET

Visions of sugar plums aren't enough for some of us: We want chocolate. The Chocolate Gallery, of Goleta, Calif., must have had us in mind when it created The Complete Chocoholic Office Survival Kit.

The kit is a candy lover's feast, with chocolate "byte-size" computers, minicomputers, and floppy disks, a chocolate typewriter and telephone, and bite-size pieces of chocolate, labeled "aspirin."

A mail-order catalog describes some of the store's more than 300 chocolate novelty candies. To receive a catalog, call (800) 426-4796.

PURPLE GIRAFFES

Maybe a leopard can't change its spots, but cats, dinosaurs, and giraffes can—if they're Design A Dolls. These and other toys, from Barnyard Babies, of Annapolis, Md., are stuffed animals decorated with black-and-white designs for coloring. The dolls come with a set of water-soluble markers. The color comes out when the animals are washed, allowing children to color them again.

Company founders Deborah Zuckerman and Wendy Wigtil developed the idea when they couldn't afford colored fabric. Now that they can, they sell some color-screened toys too.

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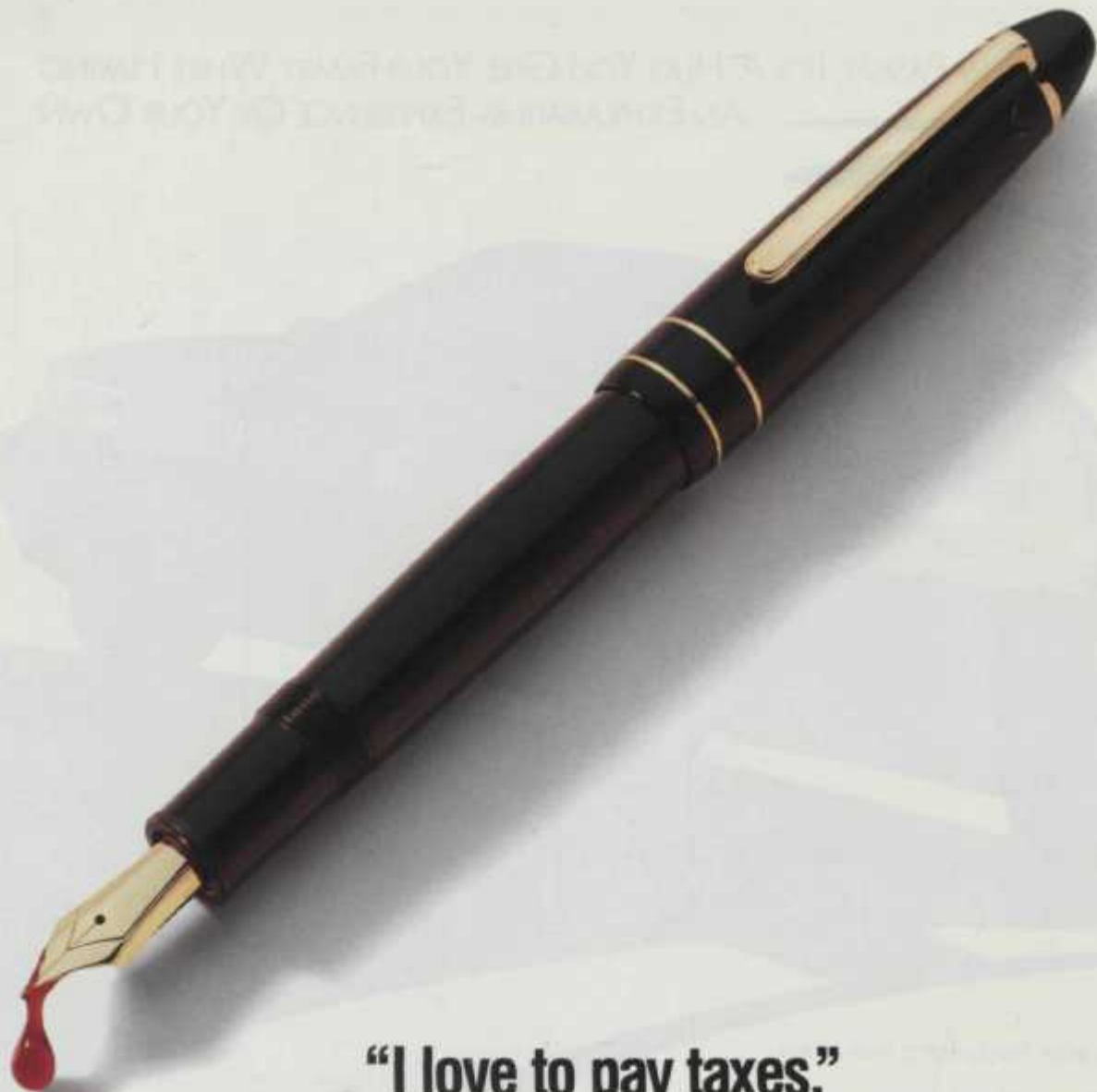
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